REPORT OF THE AUDITOR GENERAL 2001 HIGHLIGHTS

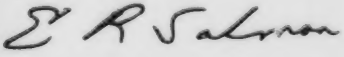
PREFACE

In an attempt to give readers an appreciation of the most significant findings contained in my Annual Report, I publish annually this highlights volume. It provides a brief summary of the results of audit work carried out in 2001.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

The year 2001 was very busy for the Office. Carrying out the audit of the Provinceís financial statements for the third time was again a challenge and strained resources. As well an audit of planning and budgeting on a government-wide basis was complex and caused delays. As a result this Report is later than originally planned.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete report would be welcomed.



E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
January 7, 2002

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OVERVIEW AND SIGNIFICANT ISSUES
(Pages 8 - 11)

1.1 Last year I discussed what I felt was the major issue facing this Province - achieving fiscal stability - and in order to provide further assistance to efforts by the government to achieve that objective, we focused much of our audit effort this year on the systems and processes that are critical to achieving fiscal stability while delivering priority services. These issues centre around governance, accountability, planning and budgeting.

1.2 I continue to urge government to give priority to the various issues which weaken effective control over the expenditure of public funds. Acting on the various recommendations contained in this and previous Reports as well as those made in the year 2000 by the Fiscal Management Task Force would assist the government in achieving its fiscal targets and thus deal with Nova Scotia's fiscal crisis.

ACCOUNTABILITY INFORMATION AND REPORTING
(Pages 14 - 39)

2.1 As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report,* was released December 20, 2001.

2.2 Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such reporting, and the effective use of the information by government and MLAs for accountability purposes will require a significant sustained commitment.

2.3 The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2001-02 revenue estimates was dated March 23, 2001 and tabled in the House on March 29, 2001 along with the

Minister of Finance's *Budget Address*. In addition, summary comments and suggestions resulting from our review procedures were communicated to the Department of Finance.

2.4 The government's March 31, 2001 summary consolidated financial statements were released November 16, 2001 as part of Volume I of the *Public Accounts*. Our Auditor's Report, dated September 28, 2001, on the consolidated financial statements was unqualified.

2.5 A review of the Province's March 31, 2001 summary consolidated financial statements indicates that in total there were approximately $31 billion of treasury-related balances and trusts to be managed by government. Additional attention could be directed towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas.

2.6 One of the priority matters identified in the 2000-01 business plan of the Technology and Science Secretariat (TSS) was the development of a government-wide Business and Technology Strategy. This initiative was undertaken and coordinated by the Corporate Strategies Division of TSS, and Phase I was completed in July 2000.

2.7 In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of accountability-related recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts. Not all of the recommendations have been fully implemented yet.

2.8 The terms of reference for the use and reporting of the taxes allocated to the Transportation Trust Fund under Section 10 of the Revenue Act should be clarified.

2.9 The House receives limited information or reporting, on a regular basis, on the management of human resources utilized by government. Reporting by the new Public Service Commission should include summary information to address this area.

FINANCIAL PLANNING AND BUDGETING

CENTRAL GOVERNMENT AND DEPARTMENTS
(Pages 42 - 72)

3.1 Annual business planning and budgeting by government provides a fundamental cornerstone over the use or stewardship of public money and property. Once debated and approved, the Annual Appropriations Act (supported by the Estimates and other planning and budget information tabled) provides the foundation upon which the government can be held to account. This chapter discusses the results of our audit of the Estimates process in central government (Department of Finance, Treasury and Policy Board, and Executive Council) and the three largest departments (Health, Education and Community Services).

3.2 We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. The approach was driven by targets established as part of the government's four-year fiscal plan. We made recommendations for improvement to certain aspects of the Estimates process.

3.3 The March 29, 2001 Budget Address was the first time since March 23, 1984 (i.e., for the 1984-85 fiscal year) that a Nova Scotia government's budget was presented to the House prior to the start of the fiscal year to which it applied. The Appropriations Act, 2001 (i.e., for the 2001-02 fiscal year) passed Third Reading in the House on April 20, 2001. Further, March 27, 1975 (i.e., for the 1975-76 fiscal year) was the last time an annual Appropriations Act received Royal Assent prior to the start of the fiscal year to which it applied. Government should strive to ensure annual plans and budgets are finalized and approved prior to the start of the fiscal year to which they apply.

3.4 Information on planned program performance is not integrated with the budget process. Performance information should be a major consideration during budget decisions. The information provided to the House along with the Budget Address should completely identify the nature and extent of significant program changes or adjustments made as a result of decisions during the budget process. Financial budget

information should be clearly linked and cross-referenced to program service or program delivery plans, including information provided on planned outcomes or targets.

3.5 The budget targets for 2001-02 were communicated to the departments by the Department of Finance and were generally based on the prior year's budget adjusted for certain "funded" cost pressures. In some cases, where funded amounts were less than the initially identified cost pressures, departments did not have operational plans in place to meet the targets. The lack of an operational plan in certain programs increases the risk of overspending the budget target, and we recommend that government ensure annual operational plans, linked to the budget targets, are prepared for all major government programs and entities.

3.6 The roles and responsibilities of central government and departmental staff in the 2001-02 process appear to have been well-defined and understood by those involved, most of whom had previous business planning and budgeting experience in government.

3.7 Additional planning information and budget guidelines should be provided to departments and agencies included in the government's reporting entity. These guidelines should include economic and other general overall assumptions or operational parameters that should be considered and, where appropriate, integrated into the individual entity's planning and budgeting processes.

3.8 Departments need to improve processes for communicating program-specific assumptions implicit in departmental budget requests. This information is required so that decision makers can assess the reasonableness of the budget requests submitted. We expected that departments would provide written guidelines and instructions to agencies and transfer payment recipients to use in preparing budgets, including common assumptions to be used. These would help to ensure budgets are consistently prepared

and that potential funding issues are identified. This was generally not the case. Instructions from departments usually included very high level directions such as *produce a balanced budget* or *assume existing service levels*.

3.9 The government's estimated revenues and related economic assumptions are supported by a variety of formal and less formal systems and models. The assumptions and risks used in determining the estimated revenues are well documented.

3.10 There are extensive supporting information and models for the budgeting of net debt servicing costs. In the formal budget documents released along with the Minister's Budget Address, the debt-related treasury aspects of government's plans and budget are well covered.

3.11 In order to improve control, borrowing authorities should have a defined life span and carry-forward borrowing authority amounts should be included in the information provided to the House of Assembly when additional borrowing authority is requested.

3.12 The House does not have or receive sufficient, appropriate information on the components of the restructuring costs appropriation in order to support effective review, debate and approval by MLAs. We did not have full unencumbered access to the information supporting the amounts budgeted for 2001-02 restructuring costs. The information not available to us related to the government's labor relations strategy which supports the wage settlement allocation in the restructuring costs appropriation. Finance had previously obtained a legal assessment on restricting access to such budget supporting information. We recognize the difficulty of balancing the need to protect the government's negotiating position, as an employer, with the need for transparency.

3.13 The budget submission of the Department of Health included insufficient detail on cost pressures. The government hired consultants to complete a joint

review of the Department of Health's budget process with the goal of suggesting improvements for future years. The consultants indicated that Health had developed a clear vision and direction for the health system. However, information systems for certain major programs with a history of overexpenditure (such as home care and long-term care) were deficient. The consultants also noted deficiencies in the information systems for acute care, mental health and other programs delivered by District Health Authorities. Due to health system restructuring concurrent with the budget process, we believe that the 2001-02 budget preparation process was not typical for the Department of Health.

3.14 Department of Health management was aware of the problems with the 2001-02 budget process and is addressing the deficiencies. There were initiatives in progress to improve available information in various health sectors.

CAPITAL EXPENDITURES
(Pages 73 - 80)

4.1 In October 2000, the Department of Finance released a discussion paper entitled *Prioritization of Tangible Capital Assets* which described a process which government departments would follow in obtaining funding for tangible capital assets. The process was subsequently implemented.

4.2 The new capital asset planning and budgeting process was well communicated to the individuals required to comply with its requirements.

4.3 Information used to make decisions on the funding of tangible capital assets was not documented in all cases examined.

4.4 Certain departments were allocated blocks of capital funding to be spent as the department decided, which we believe to be inconsistent with the requirements or intent of the new tangible capital asset planning and budgeting process, and inconsistent with the handling of requests for capital spending from other departments.

4.5 The process used to set amortization rates was reasonable, and the calculation of amortization costs for the 2001-02 Estimates was accurate.

4.6 Procedures for monitoring departmental spending to ensure consistency with capital asset funding approvals appear to be reasonable.

CAPITAL DISTRICT HEALTH AUTHORITY

(Pages 81 - 98)

5.1 The Capital District Health Authority (CDHA) was established in 2001 under the new Health Authorities Act. Preparation of the first budget for the new organization was a challenge for the management team and Board, especially because CDHA had been informed that its Provincial funding would not increase over the amount provided to the predecessor organizations in the prior year. Subsequently, CDHA's funding was increased by $27.2 million.

5.2 CDHA's process for budget preparation was appropriate and the Authority submitted its budget request to the Department of Health in the required timeframe.

5.3 Government requires information about the assumptions underlying budget submissions. The quality of the budget is largely dependent on the completeness and reasonableness of the assumptions. We recommended improvements to the documentation and communication of assumptions underlying the CDHA's budget submission.

5.4 CDHA senior management instructed staff to maintain expenditures at the prior year's level. However, statistical information on volumes circulated with the budget instructions indicated that service volumes were expected to increase in certain areas. There were no approved operational plans to 'close the gap' between the impact of increased activity levels and available funds. Similarly, during the budget process the Department of Health requested CDHA to make cuts of $9.6 million to its expenditures, of which $5.2 million was assigned to clinical areas. There was no approved operational plan to achieve the clinical reduction.

5.5 CDHA has analyzed its long-term capital needs although the analysis is incomplete in some areas. The Department of Health and CDHA should work toward establishing a common perspective on those needs, and an appropriate funding strategy. CDHA's 2001-02 capital budget submission to the Department of Health, based on departmental requests, totaled $53.5 million. CDHA allocated $3.9 million of Department of Health funding to capital, and $5.3 million is anticipated from other sources such as Foundations. The balance of $44.3 million has not been funded in the current year.

AGRICULTURE AND FISHERIES

FOOD SAFETY
(Pages 100 - 120)

6.1 Under the Health Act, there are a number of municipal regulations related to food service establishments. This results in differences throughout the Province in licensing, inspection and other compliance requirements. The Department is preparing new regulations for food service establishments to replace existing Provincial and various municipal regulations. The Department is also developing new regulations for slaughterhouses and meat processing plants. Each set of new regulations is based upon national standards and codes of practice developed by the Canadian Food Inspection System Implementation Group. These are based on scientific risk assessment and management principles.

6.2 The respective licensing, inspection, enforcement and other responsibilities of the different entities involved in the food safety system appear to be well defined.

6.3 The Department has developed policies and procedures to guide staff. Except in the case described below, we found policies to be consistent with legislation and regulations.

6.4 Churches, fire departments and other volunteer organizations can hold up to six events each year in which food is served without requiring a formal inspection by the Department of Agriculture and

Fisheries. Organizations are required to obtain a Temporary Events Licence from the Department when food is involved, and there is generally a review of food preparation, transport, storage and serving practices by a Food Safety Specialist prior to granting the licence. However, any advice from the inspector is provided in good faith and there is no follow-up to determine if the advice was acted upon. We could find no support for such an exemption in the Health Act, and consequently the policy may not be in compliance with Provincial legislation. We did note that the exemption is specified in draft regulations awaiting finalization and approval.

6.5 We observed weaknesses in the system with respect to day care centres. Day care centres are inspected by the Department of Environment and Labour. Many centres serve food, and in such cases the inspection will address issues relating to food safety. The current system does not ensure that all day care centres are inspected on a regular and timely basis. In addition, the manner of determining the frequency of inspections for day care centres is different from that used by the Department of Agriculture and Fisheries for food service establishments, and the licensing of day care centres is inconsistent from region to region.

6.6 We reviewed a sample of inspection files to determine if the Department's monitoring and inspection systems were operating effectively to ensure food safety requirements outlined in legislation, regulations and policies were being met. We found that systems were operating satisfactorily. However, we had a number of observations relating to weaknesses in file documentation and errors in the recording of inspection information in the Food Safety Section's computer database.

6.7 Based on our review of a sample of files, inspection frequency targets were generally met in 2000. However, a new risk-based policy requiring more frequent inspections is being implemented in the Food Safety Section. When the new policy is fully implemented, substantially more inspections will be required on an annual basis. We are concerned that the Department may not be able to meet the revised inspection frequencies and we recommended that the Department develop a strategy to address the increased

demand the new policy will place on its staff and other resources.

6.8 The Food Safety Section has good systems for ensuring the competency of its staff. Standards have been set for the educational and professional requirements of inspection and management staff. Regular training is provided to keep staff current on issues relating to food safety. There is a system for monitoring and evaluating the performance of staff.

6.9 We recommended a system of periodic rotation of inspectors among the body of food service establishments they inspect, where it is practical.

6.10 We observed room for improvement in the Department's reporting on performance with respect to its food safety responsibilities.

EDUCATION

PLANNING FOR SCHOOL CAPITAL EXPENDITURES
(Pages 121 - 132)

7.1 Since 1997, the Province contracted for 31 new schools built under the public-private partnership process at a cost estimated to exceed $350 million. An additional 18 new schools were approved by Executive Council at an estimated cost of $229.6 million. In December 2000, the School Capital Construction Committee recommended an additional 85 school capital projects at an estimated cost of $348.2 million. Those projects have not yet been approved by Executive Council. This chapter examines the Department of Education's processes for prioritizing and planning these significant capital expenditures.

7.2 The Department of Education's process for school capital planning and project approval, as described to us by management, appears adequate. Some aspects of the process, such as evaluation of individual projects against criteria, have not been well documented. For the process to be transparent, the Department of Education should document major steps such as evaluation of potential projects against pre-established criteria.

7.3 The School Capital Construction Committee presented its draft Report to Executive Council on June 12, 2001. The Report has not yet been approved as Executive Council required further information from the Committee.

7.4 The Department established the space requirements for seven schools contracted out in October 2000 without benefit of a complete set of space programming guidelines. Department staff used a number of documented sources, professional judgement and experience when drafting the school space requirements. We recommend the Department maintain updated space programming guidelines.

7.5 The January 12, 2001 Memorandum of Understanding provides a good accountability framework for the interdepartmental relationship between the Departments of Education and Transportation and Public Works for the school capital construction process. Due to the interrelatedness of the roles and responsibilities described in the MOU, a post-mortem assessment of the previous year's projects needs to be conducted annually and the MOU adjusted, if necessary, to ensure continued operational effectiveness.

7.6 Status reports on capital construction projects are essential for the Department of Education to effectively manage cash flow and to ensure that projects are being constructed within approved budgets. The Department of Transportation and Public Works should ensure that formal status reports are both timely and complete.

7.7 Internal Department of Education reports indicate that a serious deferred maintenance problem currently exists in Nova Scotia schools. To ensure that this problem does not escalate further, the Department of Education should begin to monitor Regional School Board spending on preventive maintenance to ensure that adequate funds are being directed toward this area and spent in the most effective manner.

SCHOOL BOOK BUREAU
(Pages 133 - 139)

8.1 The School Book Bureau of the Department of Education is responsible for the ordering, financial administration, storing and distribution of learning resources (such as text books, maps and software) for use in the public school system.

8.2 The Department indicated, based on a survey of suppliers, that the Bureau receives a purchase discount because of bulk ordering and shipping to one location.

8.3 The Department recently initiated a program of directed purchasing for certain learning resources. There is evidence that this program has achieved additional savings by increasing bulk purchasing. Extended use of this method of procurement, where appropriate, should be explored by the Department.

8.4 The procurement of learning resources should comply with the Government Procurement Policy or be supported by appropriate exemption documentation. The Department was unable to provide documentation supporting an exemption.

8.5 The benefits expected from initiatives to improve operational effectiveness and efficiency, such as the new on-line ordering system now being implemented by the Bureau, should be quantified where applicable so that actual results can be evaluated against original expectations.

8.6 Operational accountability and performance could be enhanced through the standard reporting of performance indicators and operational targets.

8.7 We reviewed and tested the systems and controls over the processing of cheques and cash and the ordering, receiving, storing and shipping of learning resources and found no significant weaknesses. Policies and procedures should be documented where appropriate.

ENVIRONMENT AND LABOUR

OCCUPATIONAL HEALTH AND SAFETY
(Pages 140 - 160)

9.1 The Department of Environment and Labour, in accordance with the Occupational Health and Safety Act, is responsible for the promotion, coordination, administration and enforcement of occupational health and safety within the Province of Nova Scotia.

9.2 The Department has a good system to communicate and explain occupational health and safety legislation, regulations and policy. However, the process used to plan and control regulation development is inadequate. The Department has limited resources to dedicate to this function, but does not have formal criteria or a prioritization process to identify areas where the need for new regulatory standards is most urgent. Also, once a decision is made to amend or create new regulations, there are no milestones, time lines or responsibilities established.

9.3 The Department has a broad mandate under the Occupational Health and Safety Act and its associated regulations and we saw no instances of the Department not complying with legislation and regulations. However, as with any Nova Scotia law, this Act applies only to persons and businesses within the Province. We noted elements of uncertainty relating to the Act's application to certain work activity conducted offshore of the Province.

9.4 If the Department continues to perform inspections at its current rate, it could take more than ten years to perform an inspection of all businesses in Nova Scotia. Despite this high volume, the Department does not have a rigorous approach to the targeting of higher-risk workplaces for inspection.

9.5 Our examination of inspection files found instances of poor documentation, as well as inadequate follow-up of compliance orders issued. We also concluded that documentation of complaints and related investigations need to be improved.

9.6 The Division needs better procedures to monitor the work activity of Occupational Health and Safety officers.

9.7 The Department's system for enforcement of the Occupational Health and Safety Act and Regulations is satisfactory.

9.8 The Department has a reasonable internal accountability framework, but its annual report lacks substantive information on the performance of the Occupational Health and Safety Division and does not fulfil its potential as an accountability document.

PUBLIC SAFETY
(Pages 161 - 181)

10.1 The Department of Environment and Labour is responsible for administering a significant number of Acts and regulations related to public safety. The Department has a good process for communicating legislative and regulatory changes to those who will be affected by them.

10.2 The Department is involved in the development of many pieces of legislation and regulations, but there are no formal criteria or prioritization techniques used to identify where the need to develop new or amend existing legislation and regulations is most urgent. There are no milestones, time lines or responsibilities established once a decision is made to amend or develop new legislation and regulations.

10.3 The application of public safety legislation and regulations is unclear with respect to offshore facilities and activities.

10.4 There are numerous instances of non-compliance with public safety legislation. Observed deficiencies include unmet inspection and investigation requirements, failure to seek and obtain certain approvals and inadequate reporting by outside organizations to the Public Safety Division.

10.5 There is no formal risk assessment process to determine inspection frequencies or select individual

inspections. In many instances, the Division has not been able to comply with the frequency of inspections specified in legislation or policies.

10.6 The documentation prepared to support an inspection varies considerably within the Division, and in many cases was inadequate or non-existent.

10.7 Documentation submitted by companies to support their compliance with orders issued is often inadequate. There was also minimal or no documentation in many files to document that inspectors or Deputy Fire Marshals had verified compliance with orders issued.

10.8 The Department has a reasonable internal accountability framework, but its annual reports lack substantive information on the performance of the Public Safety Division, and do not fulfil their potential as accountability documents. Certain statistics in the report of the Office of the Fire Marshal are untimely, incomplete and inaccurate.

FINANCE

TREASURY MANAGEMENT SYSTEM
(Pages 182 - 188)

11.1 In 1998, the Investments, Pensions and Treasury Services Branch of the Department of Finance issued a Request for Proposals for a treasury management system and in 1999 acquired the "Millennium" software package. In 2001, we audited the controls over the new treasury management system.

11.2 Good procurement practices were followed in the acquisition of the treasury management system, and Millennium was the lowest priced of those systems proposed in response to the Request for Proposals.

11.3 Millennium generally meets the requirements outlined in the Request for Proposals. The only exceptions were that there is no direct interface with the Province's central financial management system and a small number of particular types of transaction are not accurately processed by Millennium and require some manual processing.

11.4 No post-implementation review for the acquisition of Millennium has been conducted.

11.5 Controls over daily cash management are adequate to ensure the safeguarding of Provincial assets.

11.6 Controls over long-term investments are adequate to ensure the safeguarding of Provincial assets.

11.7 Controls over long-term debt management are adequate to ensure the safeguarding of Provincial assets. However, the Debt Management Committee met only once during the period of our audit. Control would be enhanced if meetings were more frequent. We understand that meetings have been more frequent during the current year.

11.8 Controls over the general computer environment of Millennium are adequate. One exception is the lack of business continuity and contingency plans. In particular, the lack of an agreement between the Branch's management and the management of the Resources Corporate Services Unit Information Technology Section on recovery procedures in the event of a major disaster could lead to delays in the resumption of operations.

11.9 Our tests of system process controls indicate that reasonable controls to ensure completeness, accuracy, authorization and an adequate management trail are in place. Improvements could be made by implementing a direct interface with the government's central financial management system. We found no errors in our testing, but any manual transcription of data is inherently error prone.

JUSTICE AND HEALTH

CENTRAL NOVA SCOTIA CORRECTIONAL FACILITY AND EAST COAST FORENSIC PSYCHIATRIC HOSPITAL

(Pages 189 - 211)

12.1 In December 1999 government signed agreements with a private consortium to design, build and own a correctional and forensic facility in the Burnside Industrial Park in Dartmouth. The Province agreed to lease the facility for 25 years. The final agreement indicated the cost of the facility was $60 million. Construction was completed and the facility was occupied by the fall of 2001.

12.2 We believe accountability for the project would have been improved if government had provided timely, comprehensive reporting of project status or other significant information to the House of Assembly in departmental annual reports. For example, there was no detailed reporting to the House on the $22.0 million increase in the cost of the new facility.

12.3 Project goals and processes were consistent with department and government goals and policies, and provided clear expectations for the project.

12.4 Organizational structures and processes were established near the beginning of the project and were improved as the project progressed.

12.5 Government chose a facility site in Bedford rather than a site recommended by staff, and the extra cost for the land is estimated at about $1.0 million. The subsequent change in site location from Bedford to Burnside cost the Province at least an extra $3.1 million.

12.6 The Province did not compare the anticipated cost of the public-private partnership (P3) project to the cost of undertaking the project conventionally. Draft Provincial guidelines for P3 projects recommended that public sector comparators be prepared when significant capital projects are being planned.

12.7 The government structured the project as a P3. We did not see significant benefits being realized by

government in structuring the project this way. The government did not transfer significant amounts of risk to the private sector that it would have borne if it had built and owned the facility itself. We also identified certain additional costs, risks and uncertainties incurred by government as a result of using the P3 process in place of a more traditional method.

12.8 There should be a post-completion review to assess the project. The knowledge gained and observations made could benefit future government projects.

12.9 The Province paid approximately $350,000 to the developer to the end of September 2001 before the facility was fully occupied.

12.10 The project was a cooperative effort of several government departments and related entities. Although numerous committees existed throughout the project and a project office was established, we could not determine the full financial cost of the project over the period from 1995 to 2001. We tabulated approximately $5.5 million of project-related costs in addition to the cost of $60 million to construct the facility, but we do not believe we have identified all such costs.

12.11 In planning the correctional facility, the Department of Justice reserved surplus government equipment and thereby limited its cost of new furniture and equipment to approximately $104,000.

CROWN AGENCIES AND CORPORATIONS

HALIFAX-DARTMOUTH BRIDGE COMMISSION
(Pages 214 - 224)

13.1 We have suggested that documentation standards be improved in certain financial management areas such as budgeting and monitoring, and that the Halifax-Dartmouth Bridge Commission's Board and committee minutes related to discussions in these areas be expanded.

13.2 Although the Commission has a documented procurement policy, we were unable to determine

compliance in all areas tested. We have recommended standardized forms be used and a record retention policy be established for the procurement process. We also recommended that the Commission document the reasons for obtaining certain services through sole-source arrangements, as required under the Provincial Procurement Guidelines.

13.3 The Commission is fulfilling reporting requirements as specified in its legislation and the Trust Indenture related to its long-term debt. We noted that efforts are being made by the Commission to clarify its reporting and accountability relationship with the Department of Finance in light of government-wide expenditure controls implemented during 2000-01.

13.4 Financial information, including information on investments held in sinking funds and other reserves, is adequate for monitoring and decision-making purposes. We noted that the financial position of the Commission has improved in the past 10 years. The portion of total expenditures related to debt servicing costs has declined from 67.3% in 1990 to 44.0% in 2000, an improvement of 65.3%.

13.5 We tested compliance with aspects of the Commission's capital asset policy and noted no significant deviations. We recommended capital projects included in the annual budget be prioritized.

13.6 The Commission has acknowledged the need for a long-range strategic plan. Variables to be included in a comprehensive plan need to be identified and analyzed as necessary.

13.7 The Commission has policies and procedures to ensure the safety of its employees and contracted staff, many of which likely impact and help secure the safety of the traveling public. We recommended a safety manual be prepared to document those policies and procedures directed toward public safety.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS
(Pages 225 - 230)

14.1 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies where the financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

OTHER AUDIT OBSERVATIONS

ADDITIONAL APPROPRIATIONS
(Pages 232 - 235)

15.1 Formal approval of additional appropriations totalling $450 million and $658 million is required for the years ended March 31, 2001 and March 31, 2000 respectively. It must be acknowledged that a significant portion (i.e., more than half) of these totals relate either to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles or to unusual items, both of which would not have been considered in the estimates process for those years.

15.2 There were no special warrants approved for the 2000-01 fiscal year.

CASH AND OTHER LOSSES
(Pages 236 - 238)

16.1 The losses reported to us for the year ended March 31, 2001 totaled $560,139; consisting of cash losses of $41,539, property losses estimated at $817,296 and recoveries of $298,695.

16.2 Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

OFFICE OF THE AUDITOR GENERAL

REPORT ON THE OFFICE OF THE AUDITOR GENERAL

(Pages 240 - 260)

17.1 The year 2000-01 was productive for the Office of the Auditor General. It was a year in which the Office made significant efforts to examine its role and renew its strategic directions. It was also a time for further developing the measuring and reporting of Office performance. This Chapter presents a summary of Office accomplishments and activities in 2000-01, a discussion of performance indicators developed for the Office and measurements made against them, as well as the Office's complete 2002-03 Business Plan.

REPORT OF THE

AUDITOR GENERAL

2001

REPORT OF THE

AUDITOR GENERAL

2001

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Report to the House of Assembly for the year ended March 31, 2001, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
January 7, 2002

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INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 I have the pleasure to submit my tenth Annual Report to the Legislature. It contains the results of audits and other work carried out by my Office during the year 2001. I continue to attempt to assist the members of the House of Assembly with their responsibility to hold the government to account for the management of public funds.

1.2 In performing our work we adhere to the standards established and promulgated by the Canadian Institute of Chartered Accountants. These are the professional standards adhered to by public accountants and legislative auditors when performing assurance work. Chapter 17 of this Report provides a description of the Office's mandate, mission, goals and business functions. It discusses the strategic and other initiatives undertaken during the year, discusses our progress in measuring our performance and outlines our Business Plan for 2002-03.

1.3 The Auditor General Act calls for this Annual Report to be tabled by December 31. However, again this year, the Report was delayed in order to complete and include the results of major audits.

1.4 Last year I discussed what I felt was the major issue facing this Province - achieving fiscal stability - and in order to provide further assistance to efforts by the government to achieve that objective, we focused much of our audit effort this year on the systems and processes that are critical to achieving fiscal stability while delivering priority services. These issues centre around governance, accountability, planning and budgeting and are extensively discussed in Chapters 2, 3, 4 and 5.

AUDIT MANDATE

1.5 In addition to my responsibility to table this Annual Report, the Auditor General Act requires me to provide an opinion to the House of Assembly on the government's financial statements and to have that opinion included in the *Public Accounts*. My opinion was dated September 28, 2001 and was included in the Public Accounts which were tabled by the Minister of Finance on November 16, 2001.

1.6 The Auditor General Act also requires me to review the estimates of revenue contained in the *Budget Address* of the Minister of Finance and to report to the House of Assembly on the reasonableness of the revenue estimates. That report was included in the March 29, 2001 Budget Address.

1.7 The Auditor General Act does permit me to table two additional reports during a year, however none were issued in 2001.

DEALING WITH THE FISCAL CRISIS

1.8 As I mentioned earlier, this is my tenth Annual Report to the Legislature. Starting with the first one, and annually, I have stressed the need for improved processes, systems and information. As I have acknowledged before and as I discuss in this Report, continuous improvement has taken place through actions and leadership at various levels. I also acknowledge that actions have been directed at addressing the Province's fiscal situation. In the early 1990s Nova Scotia was running

huge deficits and debt was skyrocketing. Actions by successive governments from 1993 on have slowed the pace but the goal of achieving a balanced budget has still not been met, and the Province's debt continues to grow. There are other overriding questions which remain to be answered. Is balancing the budget enough? Aren't significant sustained surpluses necessary to really start reducing the debt? Is employing a target-driven budget system adequate when faced with demands for services that cannot be accommodated within the targets? How does a government lower the expectations of the public in terms of what can be afforded?

1.9 I certainly do not have answers to all these questions. I am not sure anyone does. I do know that process, system and information improvements can help the debate and decision-making necessary to deal with these issues, but are not the total solution. In last year's Report I discussed the work of the Fiscal Management Task Force and suggested that their recommendations could help. I encourage the government to continue to address these issues.

ACCOUNTABILITY INFORMATION AND REPORTING

1.10 As discussed in Chapter 2, there have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans, priorities and achievements. Finance and the Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available. The improved information is intended to assist MLAs in debating the resource allocations in the annual *Estimates* and considering the proposals of government regarding program priorities. I encourage MLAs to continue to demand better information on government's plans and results, and to use it effectively as a means of holding government to account for its decisions and performance.

1.11 Although not addressed directly by our audit activities, recent public reports indicate that there are issues of governance and accountability at the level of individual entities. These will have to be addressed as well if effective control of public funds is to be achieved. Such control is essential if fiscal stability is to be achieved and sustained.

FINANCIAL PLANNING AND BUDGETING

1.12 As discussed in Chapter 3, the annual Estimates are the cornerstone of effective financial control and provide the foundation for government's financial accountability to the Legislature. We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. We did make recommendations for improvements to certain aspects of the process.

1.13 The 2001-02 process was primarily target driven and flowed from the government's four-year fiscal plan. The ability to achieve targets requires clear linkages between the targets for the program areas and the operational plans for those programs. Such operational plans should be in sufficient detail and outline assumptions and service levels. Our audit work indicated that operational plans were not prepared in certain areas and some were not in sufficient detail to link resource allocations to planned services. Effective upwards communication by government managers of program priorities and proposed service level options is also critical.

1.14 Chapter 4 examines the government's new process for prioritizing capital expenditures. We found the process to be reasonable, based on the funds available.

1.15 In Chapter 5, we discuss our audit of the budget information which the Capital District Health Authority provided to government through the Department of Health. We determined that the Authority's process for budget preparation was appropriate, but suggested improvements to the processes for operational planning and communication of assumptions underlying the budget submission.

1.16 We encourage government at all levels to continue to improve these processes and the resulting documentation. Improved processes should help to achieve fiscal targets in a coherent and effective manner, while delivering services that are rational and sustainable.

SAFETY

1.17 Three audits dealt with safety: food safety, occupational health and safety, and public safety. We made recommendations for improvements in documentation, standards development, levels of compliance with legislation and regulations, as well as in reporting on program performance.

FINANCE - TREASURY MANAGEMENT SYSTEM

1.18 In order to more effectively manage various treasury-related transactions and accounts, a new system (the Millennium system) was acquired by the Department of Finance. It was acquired in an appropriate manner and has been generally well implemented. We recommended that a post-implementation review be performed. There is also need for a formal business continuity and contingency plan in the event of a disaster.

CORRECTIONS AND FORENSIC FACILITY PROJECT

1.19 The Office undertook to audit the government's acquisition of a $60 million central corrections and forensic facility in Burnside Industrial Park, Dartmouth. We concluded that appropriate processes were used to plan and manage the project, but there could have been more comprehensive reporting on progress and changes in the project in government annual reports to the House of Assembly. We could not express an opinion on the reasonableness of some decisions respecting the location of the facility due to lack of documentation. Government structured the project as a public-private partnership (P3). We did not see significant benefits realized by government as a result of structuring the project as a P3.

SCHOOL CAPITAL CONSTRUCTION

1.20 Since 1997, the government has approved over $600 million of school construction, and an additional $300 million was recently submitted to Executive Council for approval. The Office audited the Department of Education's processes for assessing and approving school construction projects.

1.21 We found that the Department of Education's process for school capital planning and project approval, as described to us by management, appears adequate. Some aspects of the process, such as evaluation of individual projects against criteria, have not been well documented. For the process to be transparent, the Department of Education should document major steps such as evaluation of potential projects against pre-established criteria.

1.22 Internal Department of Education reports indicate that a serious deferred maintenance problem currently exists in Nova Scotia schools. To ensure that this problem does not escalate further, the Department of Education should begin to monitor Regional School Board spending on preventive maintenance to ensure that adequate funds are being directed toward this area and spent in the most effective manner.

ADDITIONAL APPROPRIATIONS

1.23 Additional appropriations totalling $450 million and $658 million were required for the years ended March 31, 2001 and March 31, 2000 respectively. It must be acknowledged that a significant portion (i.e., more than half) of these totals relate either to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles (GAAP) or to unusual items, both of which would not have been considered in the estimates process for those years.

1.24 The additional appropriations had not received the required formal approval prior to March 31, 2001, and all were still awaiting Order in Council approval late in 2001. This raises questions as to the effectiveness of the House of Assembly's control over spending authority limits.

1.25 The review and debate by the House of government's annual Estimates culminates in the approval of spending authority limits (i.e., appropriations), and has a long and well-established tradition in the parliamentary process. That notwithstanding, with financial accounting and reporting now on an accrual (versus cash) basis in accordance with GAAP, the current appropriations process or focus cannot provide adequately for the effective control of the public purse by the House. Government recognizes this and is considering options in order to improve the process.

CONCLUDING REMARKS

1.26 I continue to urge government to give priority to the various issues which weaken effective control over the expenditure of public funds. Acting on the various recommendations contained in this and previous Reports as well as those made in the year 2000 by the Fiscal Management Task Force would assist the government in achieving its fiscal targets and thus deal with Nova Scotia's fiscal crisis.

1.27 In conclusion I would like to thank the staff of my Office for their efforts and support. Once again they have worked diligently to conduct their assigned responsibilities professionally, courteously and fairly. As well I wish to thank those whom we audit for their cooperation and fairness. I recognize that auditors can get in the road of a normal day's work but we seldom hear complaints.

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING

BACKGROUND

2.1 Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so Members of the Legislative Assembly (MLAs) can hold government to account. The need for quality accountability information and reporting on government's performance continues to be a topic of consideration in a number of jurisdictions.

2.2 In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes.

2.3 Exhibit 2.1 on page 25 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and Provincial public sector entities' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.4 Exhibit 2.2 on page 25 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.5 The purpose of this Chapter is to provide summary comments on the quality of accountability information and reporting to the MLAs, including the Province's financial statements.

RESULTS IN BRIEF

2.6 The following are our principal observations this year.

- As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report,* was released December 20, 2001.

  Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such

reporting, and the effective use of the information by government and MLAs for accountability purposes will require a significant sustained commitment.

- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2001-02 revenue estimates was dated March 23, 2001 and tabled in the House on March 29, 2001 along with the Minister of Finance's *Budget Address*. In addition, summary comments and suggestions resulting from our review procedures were communicated to Finance.

- The government's March 31, 2001 summary consolidated financial statements were released November 16, 2001 as part of Volume I of the *Public Accounts*. Our Auditor's Report, dated September 28, 2001, on the consolidated financial statements was unqualified.

- A review of the Province's March 31, 2001 summary consolidated financial statements indicates that in total there were approximately $31 billion of treasury-related balances and trusts to be managed by government. Additional attention could be directed towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas.

- One of the priority matters identified in the 2000-01 business plan of the Technology and Science Secretariat (TSS) was the development of a government-wide Business and Technology Strategy (BTS). This initiative was undertaken and coordinated by the Corporate Strategies Division of TSS, and Phase I was completed and reported upon in July 2000.

- In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of accountability-related recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts. Not all of the recommendations have been fully implemented yet.

- The terms of reference for the use and reporting of the taxes allocated to the Transportation Trust Fund under Section 10 of the Revenue Act should be clarified.

- The House receives limited information or reporting, on a regular basis, on the management of human resources utilized by government. Reporting by the new Public Service Commission should include summary information to address this area.

SCOPE OF REVIEW

2.7 This assignment represents an ongoing monitoring, identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.8 In addition to considering the status of accountability-related initiatives undertaken by government, we reviewed and provide commentary on selected matters, including the Province's summary consolidated financial statements.

PRINCIPAL FINDINGS

2.9 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings:

- Planning and Accountability Framework
- Revenue Estimates in *Budget Address*
- Province's Financial Statements
- Treasury Management
- Management Control of Information Technology
- Other Matters

Planning and Accountability Framework

2.10 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there should be a standard framework in place. Such a standard has been defined, is being implemented, and will continue to evolve over the next few years.

2.11 The *Planning and Accountability Framework* is a government-wide initiative now being coordinated through the Treasury and Policy Board (TPB). The information and reporting documents prepared as a result of the framework are to provide an increased focus on outcomes at both the overall government and departmental or entity levels. The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government. How such information or reporting is presented to MLAs, and used by them as part of the parliamentary process to hold government to account, will have a significant impact on its effectiveness.

2.12 As a result of June 2000 changes to the Provincial Finance Act (included in the Financial Measures 2000 Act), there is now a statutory requirement for such information and reporting on outcomes to be provided by government. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report*, was released December 20, 2001. Supporting accountability reports for departments are to be available through their web-sites.

2.13 As the quality of reporting on outcomes continues to evolve, it will be important for MLAs to be provided more sufficient appropriate information on the government's progress towards its targets for program service and delivery levels.

2.14 Reporting on performance, by governments, is a topic of some significance and debate in virtually all Canadian jurisdictions. In July 1999, CCAF-FCVI Inc. (a Canadian research and educational foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit), as part of its Public Performance Reporting Program, published *Principles for Building a Public Performance Report - A Discussion Paper from Canada's Legislative Audit Community*.

2.15 Among other things, the publication indicates that decision makers, whether assessing results as part of an accountability review or considering the impact of alternative courses of action, require performance information or reports that are relevant, reliable, and understandable. Exhibit 2.3 on page 26 includes additional summary information extracted from that publication.

Revenue Estimates in Budget Address

2.16 Section 9B (1) of the Auditor General Act provides the Auditor General with the following mandate with regard to the government's annual revenue estimates.

> *"The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."*

2.17 We first exercised this mandate (previously provided for in section 65A of the Provincial Finance Act), which is unique within the Canadian legislative audit community, in 1994.

2.18 The Auditor General's Report on the 2001-02 revenue estimates was dated March 23, 2001 and was tabled in the House along with the supporting information for the March 29, 2001 *Budget Address*. Exhibit 2.4 on page 27 is a copy of the Auditor General's Report on the 2001-02 Revenue Estimates.

2.19 At the conclusion of our review of the 2001-02 revenue estimates, we provided a copy of the Auditor General's Report on the Revenue Estimates for *Budget Address* printing purposes, and we also forwarded a letter to the Minister of Finance. That letter dated March 28, 2001 provided the following summary observations on matters regarding the 2001-02 revenue estimates included in the March 29, 2001 *Budget Address:*

> *In addition to my report, I would like to draw your attention to the following summary comments or observations:*
>
> - *The estimating of provincial economic performance and revenues is subject to a number of risk factors, not all of which are directly controllable to any significant extent by government. In such circumstances, it is not unreasonable for a prudent degree of caution or conservatism to be incorporated into the economic assumptions and revenue estimates.*
>
> *Further, despite detailed models and data available which are used to project economic activities and revenue levels, ultimately a requirement remains for a significant amount of professional judgement (economic or otherwise). The exercise of professional judgement to determine the economic assumptions and revenue levels to be included in the estimates is an integral, important and appropriate element of your staff's process for estimating revenues.*
>
> - *The Key Assumptions Outlook document which is included in your Budget Address provides summary information and commentary to readers to assist in assessing the assumptions used and the revenue estimates. In this regard, it is acknowledged that Nova Scotia continues to disclose more information on its economic assumptions and revenue estimates than other jurisdictions.*
>
> *Further to the above general comments, we note that this year your staff have included comments in the Key Assumptions Outlook document on certain positive and negative risk considerations for selected economic assumptions or revenue line items. This is a constructive change, in that it further supports a reader's understanding and consideration of complexities inherent in the estimate process, and the potential volatility of revenue line items.*
>
> - *The Province continues to receive significant prior year adjustments (i.e., PYAs) through the various federal-provincial fiscal arrangements. It is our understanding*

that your staff used the most recent formal information from the Federal government - adjusted in certain instances for more current local conditions or considerations - in order to arrive at the estimates for 2001-02 (as well as the forecast for 2000-2001, which is not specifically covered during my review). However, it must still be acknowledged that PYAs will most likely be identified during 2001-02 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.

In this regard, further adjustments may be necessary to the PYAs or the other revenue forecasts for 2000-2001 included in the budget documents as a result of new updated information that becomes available prior to the finalization of the Province's March 31, 2001 consolidated financial statements.

- *It is also important to acknowledge the Province continues to experience challenges as it relates to the timing and substance of some of the data provided by the Federal government that is relevant to Finance's economic and revenue modelling for forecast or estimate purposes. We urge Finance to continue its efforts and deliberations with Federal Finance and the Canada Customs and Revenue Agency (CCRA) to satisfactorily resolve such matters.*

- *The processes and practices for the measurement, recognition and recording of revenue (i.e., for estimate and accounting purposes) flowing to the Province from or through the various federal-provincial arrangements or agreements are complex and not well understood outside of the responsible division of your Department. This is not only due to the nature of the arrangements or agreements themselves, but also that information and support received from the Federal government is adjusted by Nova Scotia Finance staff for more current or local considerations. It is our understanding these adjustments do not affect the total revenue ultimately received from the Federal government, but only when the revenue is recognized in the Province's accounts.*

  Again this year it is suggested the processes and practices for recognition and recording of tax and other revenue transfers from the Federal government be reviewed, including consideration of the related accrual accounting practices in other provinces. To the extent appropriate, my staff would be prepared to assist or provide advice during a review.

Province's Financial Statements

2.20 The Members of the Legislative Assembly (and the public) require financial information on and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis. In 1999, government made significant changes to the accounting policies and practices used to determine and report the Province's financial position and results of operations for a fiscal period.

2.21 For provincial governments in Canada, generally accepted accounting principles (GAAP) are represented by recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's other accounting standards or pronouncements.

2.22 Government's decision to move to GAAP as a basis of accounting was significant, and provided for the removal of a number of long-standing concerns relating to the completeness of the Province's financial reporting. Further, the use of GAAP provides an authoritative foundation or

source from which government can both choose and defend its accounting policy and practice decisions.

2.23 The government's summary consolidated financial statements for the March 31, 2001 fiscal year were released November 16, 2001 along with the unqualified Auditor's Report of the Auditor General dated September 28, 2001, as part of Volume I of the *Public Accounts*. The Auditor's Report is reproduced in Exhibit 2.5 on page 28. Nova Scotia was the eighth of eleven jurisdictions (i.e., Provincial and Federal governments) to release its audited financial statements for the fiscal year ending March 31, 2001. Nova Scotia was tenth in 2000, when its *Public Accounts* were released December 14, 2000. Finance and this Office have agreed to collaborate in identifying practical means to work towards more timely reporting.

2.24 During the course of our audit of the government's March 31, 2001 summary consolidated financial statements, various findings and observations were noted. A formal management letter has been drafted for discussion with Finance. The following overall summary comments or observations are provided at this time.

- The June 2000 changes to the Provincial Finance Act provide for more oversight control by the Minister of Finance and Executive Council of financial management systems and significant transactions of all entities included in the government's reporting entity. Implementation and communication strategies for the above are critical in order to optimize the coordination and exchange of information required to achieve effective control.

- The Minister of Finance is responsible for the establishment of financial and accounting policies for government. The establishment of financial and accounting policies provides employees involved in those functions with a clear understanding of what is expected to be done and thus reduces the chance of error.

  Controls could be improved if all approved policies were available in a financial management and accounting policy manual accessible by all staff involved in those functions. We understand that a draft manual has been compiled and has been given to Treasury and Policy Board for review and approval.

  Using the internet as a source of the financial management policy manual of government will also easily allow all entities in the government reporting entity (GRE) to be aware of government's policy statements and to use them as a guideline when establishing or amending entity policies.

- The scope and mandate of Finance's controllership function, as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity, need to be clearly defined and communicated.

- During 2000-01, the internal audit function in government was centralized in the Department of Finance. An effective internal audit function is an important control mechanism. Where appropriate, this Office has and will continue to coordinate our plans and coverage with that of internal audit.

- The following are the more significant matters that PSAB is working on where new formal pronouncements or guidance could require accounting policy or statement presentation changes in the future:

  - employee future benefits;
  - foreign currency translation;

- liabilities, commitments and contingencies;
- reporting entity; and
- reporting model.

- $73.3 million was reported as restructuring costs in government's March 31, 2001 financial statements. Certain costs in this account could be linked to specific departments. Management and control of this account would be improved if there were formal criteria established for what should be recorded in the account and, as well, if there was a detailed budget for the account to aid in monitoring the actual expenses against budget. Further comments in this regard are included in Chapter 3 of this Report (see paragraph 3.99).

Treasury Management

2.25 A review of the Province's March 31, 2001 summary consolidated financial statements indicates that in total there were approximately $31 billion of treasury-related balances and trusts managed by government. The volume (i.e., number or dollar value) of transaction activity during the fiscal year is not reflected in this amount, and it would provide a more complete context for considering the overall magnitude of the Province's treasury management activities.

2.26 Most, but not all, of the Province's day-to-day treasury and management activities for such accounts or balances are to some extent (directly, or at least indirectly) the responsibility of the Investments, Pensions & Treasury Services Branch of the Department of Finance. See Chapter 11 of this Report for the results of our audit of the basic systems and controls in place over certain significant treasury transactions.

2.27 There has been, and should continue to be, close scrutiny of government's annual budget and results (i.e., surplus or deficits) as well as the Province's net direct debt. However, in our view, additional attention could be directed towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas.

Management Control of Information Technology

2.28 Exhibit 2.6 on page 29 depicts the current management structure for the use of information technology in government. The key authoritative body is the Business Technology Advisory Committee (BTAC) which is a sub-committee of Deputy Ministers which reports to the Chair of Treasury and Policy Board. The mandate of BTAC is to:

- provide advice on the strategic direction for government;
- provide advice on the selection of business improvement and change initiatives and the application and use of all business technologies;
- ensure that policy is developed and maintained for all forms of business technology; and
- review major and non-compliant technology initiatives and proposals to ensure they support the strategic plan and priorities of government.

2.29 One of the priority matters identified in the 2000-01 Business Plan of the Technology and Science Secretariat (TSS) was the development of a government-wide Business and Technology Strategy (BTS). This initiative was undertaken and coordinated by the Corporate Strategies Division of TSS, and Phase I was completed and reported upon in July 2000.

2.30 The introduction of that report states, in part, the following.

> *"Information and technologies in all forms are integral components in the delivery of services and operations of government generally. Successfully implementing change in government will increasingly depend on making the right choices in the management and use of Information and Technology (I &T) both in the common infrastructure and in individual program areas."*

2.31 The stated goal of the BTS was *"...to establish a technology framework that will enable the government to use information and technology in a coordinated and effective manner to support and advance the Nova Scotia Government's business vision."*

2.32 The following was further stated.

> *"The result of the BTS will be recommendations to establish an enabling framework consisting of Governance/Accountability, Organization, Policy/Standards and Methods/ Tools. Once this framework is fully implemented and in operation, the result will be effective delivery of applications, information and infrastructure that will support and advance the Nova Scotia Government's business vision."*

2.33 *How was this initiative structured?* - The first phase of the BTS focused on the Governance/Accountability and the Organization components of the defined enabling framework.

> *"Business drivers and the Information and Technology vision were developed, and the current situation was analyzed and documented. Extensive research was conducted of other jurisdictions in both Canada and the United States, along with the research firm, Gartner Group. Focus groups were conducted with representation from both the business and IT communities in government."*

2.34 *What further progress has been made since the release of the Phase I report?* - The Phase I Report was reviewed and approved by BTAC in July 2000. Since that time further research and planning has taken place to help facilitate many of the recommended changes. Several of the recommendations with organizational impact have yet to be acted upon pending further research and the development of specific implementation plans.

2.35 One of the major projects currently underway is the Infrastructure Shared Services Project. This project is focusing on the creation of a centralized shared service organization for the delivery of utility IT services across core government departments and agencies. In October 2001, a report was delivered outlining the current situation for the delivery of utility IT services, including the identification of several issues along with related recommendations. This is viewed as being the first step in developing a detailed business case.

2.36 As well, in the past several months, Phase II of the BTS was started. This phase focuses on the remaining two components of the defined enabling framework - i.e., Policies/Standards and Methods/Tools. To date, the current situation in these two areas has been documented and research is being conducted to determine how these areas are managed in other jurisdictions.

2.37 *What impact should this initiative have?* - The Business and Technology Strategy project represents a very significant initiative. This project has recognized I&T in the context of an integral component in the planning, delivery and support of most government services and operations.

2.38 All future projects coming out of the BTS for both Phases I and II, as well as all future IT projects generally, need to be aligned with the vision, the business drivers and the guiding principles

as approved in the BTS. Further, when completed and fully implemented this project will provide both strategic and operational goals, objectives, standards and practices to be applied across government.

2.39 Recently, Executive Council approved in principle the creation of the Office of Technology and Innovation as an office of the public service to replace the Technology and Science Secretariat. It is our understanding that the creation of the Office will formalize the mandate, governance and authority structure, and responsibilities of that new organization for the information management and technology component of government services and its relationship to BTAC, Treasury and Policy Board, and core agencies and departments of government in the context of I&T.

2.40 *Data centre services* - In the early 1990s, the government entered into contractual arrangements to outsource its Provincial Data Centre processing requirements. Those arrangements were renewed effective October 1998 for a five-year term. The arrangements call for annual review by an independent audit function of the control procedures in place for the resources used for the processing of Provincial systems.

2.41 Since the programs, processing and data for significant Provincial systems reside at the Data Centre (e.g., including HRMS, RMV, OASIS, JOIS), we believe that the results of an independent control review would be of interest to the Members of the Legislature. Exhibit 2.7 on page 30 is a copy of the most recent *Auditors' Report on Control Procedures* as it relates to the Province's outsourced Data Centre Services.

Other Matters

2.42 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the House of Assembly.

2.43 *PAC recommendations* - In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of accountability-related recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts.

2.44 Exhibit 2.8 on page 31 provides a list of all of the PAC Sub-committee recommendations as well as a summary of our understanding on whether action has been taken or planned. Not all of the recommendations have been fully implemented yet.

2.45 *Transportation Trust Fund* - On page 568 of Volume II of the March 31, 2001 *Public Accounts* is an unaudited continuity statement and summary of expenditures for the Transportation Trust Fund (TTF).

2.46 A March 26, 1999 letter from the Clerk of the Executive Council to the Deputy Minister of Finance included the following which provides a historical summary and assessment of TTF's legal status.

> *"Further to our telephone conversation of March 25, 1999, I enclose for your reference and information a short statutory history of the above noted Fund.*
>
> *The Transportation Trust Fund was created in 1990 by an amendment to the Gasoline and Diesel Oil Tax Act by adding Section 6A thereto. In 1992 Section 6A was amended to qualify the statutory language establishing the Trust Fund by making it a part of the Consolidated Fund of the Province. In my view that amendment made the Transportation Trust Fund a trust fund in name only and made the gasoline and diesel oil tax contributed to it available for the general purposes of the Province. In 1996 the Gasoline and Diesel Oil*

Tax Act, the Health Services Tax Act and the Tobacco Tax Act were combined and consolidated into the Revenue Act. The Transportation Trust Fund was continued by Section 10 of the Revenue Act but in the form by which it had been amended in 1992.

Therefore, my view is that the Transportation Trust Fund continues to be a trust fund in name only and the tax revenue contributed to it is not required to be used solely for the purpose of the construction and upgrading of all 100 series highways, which is also how I believe the Department of Finance presently administers the Fund."

2.47 Section 10 of the Revenue Act reads as follows:

10 (1) The Transportation Trust Fund is hereby continued as part of the Consolidated Fund of the Province and shall be used for the purpose of the construction and upgrading of all 100 Series highways.

(2) Notwithstanding the Public Highways Act, there shall be paid into the Transportation Trust Fund

(a) two cents per litre of the tax levied pursuant to subsection 6(1); and

(b) four and one-half cents per litre of the tax levied pursuant to subsection 8(1).

2.48 Exhibit 2.9 on page 36 shows the accumulated totals reported for the TTF since its inception based on the unaudited information reported in Volume II of the *Public Accounts*. The ending balance on the exhibit is different than the amount reported in the *Public Accounts* due to a clerical error in the latter.

2.49 An analysis of the expenditures reported against the TTF indicates that approximately 52% were directed to Highway 104 and 15% to Highway 101. Highways 102 and 103 were each allocated approximately 7% of the expenditures reported against the TTF.

2.50 The $30.5 million of transfers to Consolidated Fund have all been reported in the last three fiscal years. In this regard, it is unclear when or if such transfers must ultimately be returned to the TTF for use against series 100 highway expenditures in order to be compliant with Section 10 of the Revenue Act.

2.51 In addition, refund of payments (i.e., of taxes paid on gas/fuel) reported against the TTF are not allocated to the fund based on the taxes allocated as per Section 10 of the Revenue Act. We are not aware of the rationale for reporting refunds against the TTF, as opposed to a portion equivalent to the share of taxes that would have been applicable under the Act.

2.52 Although the TTF is a notional or memo fund for purposes of accounting and reporting of the Consolidated Fund, it does appear to be an internally restricted fund. As such, the terms of reference for use and reporting should be clarified.

2.53 *Pension funds* - The Pension Services Group (PSG) of the Department of Finance has responsibilities for the administration of the funds of the Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers Pension Plan (NSTPP). The Minister of Finance is the Trustee for both funds. PSG also administers the Members Retiring Allowances Account (MRAA) and, as of February 2001, the Sydney Steel Corporation Superannuation Fund.

2.54 Members of the PSSP and NSTPP are supposed to be sent annual statements by the PSG. While NSTPP members received the required statements, due to system implementation and other problems, PSG has not been able to meet this annual reporting requirement to PSSP members in the past two years. It was indicated that statements will be sent out to PSSP members by April 2002.

2.55 For PSSP actuarial valuation purposes, a three-year investment average valuation technique was implemented during 2000-01. Such an approach is used by many pension plans/funds in order to smooth short-term swings in the market value of investments. This change was not implemented for the NSTPP fund and, as such, additional care needs to be exercised when comparing the reported results and positions of these funds. Exhibits 2.10 (a) and 2.10 (b) on pages 37 and 38 are the most recent actuarial opinions on the plans or accounts.

2.56 *Workforce demographics* - Provincial public sector employees represent a significant resource and cost, critical to the delivery and management of public programs or policies of government. Included in the most recent actuarial valuation reports of the PSSP and the NSTPP were tables profiling the active members of those plans. See Exhibit 2.11 on page 39 for summary totals by age extracted from these two reports.

2.57 While not encompassing all employees of the Provincial public sector, the information on these plans should be of interest as it relates to two significant components of the Provincial government workforce. For example, 67.6% of PSSP active members and 71.6% of NSTPP are 40 years of age or older.

2.58 The House receives limited information or reporting, on a regular basis, on the management of human resources utilized by government. Reporting by the new Public Service Commission should include summary information to address this area.

2.59 *Follow-up matters* - In previous years, the Auditor General's Report has included various recommendations in Chapter 2. Action has been taken on many of these. The following is a summary highlighting areas where we believe action is still warranted.

- Approvals for additional spending authority required (e.g., additional appropriations) and for write-offs should be in place on a timely basis.
- Accountability would be enhanced if the reporting to Treasury and Policy Board on procurement policy exceptions was provided to the House.
- The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.
- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

CONCLUDING REMARKS

2.60 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.61 There have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. Finance and the Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available.

Exhibit 2.1

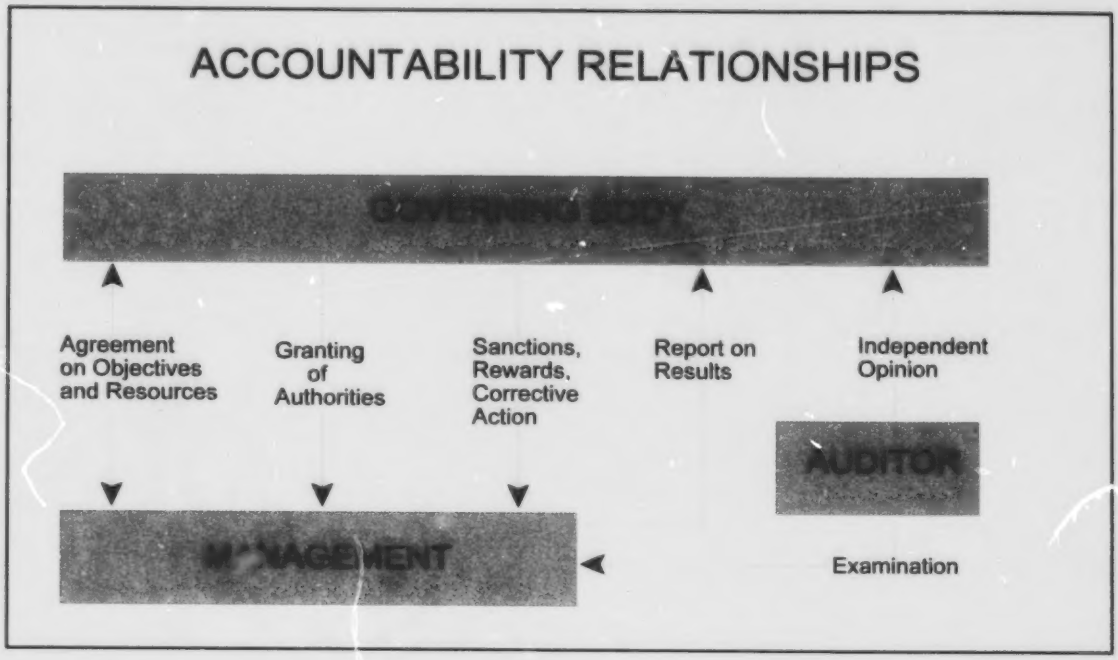


Exhibit 2.2

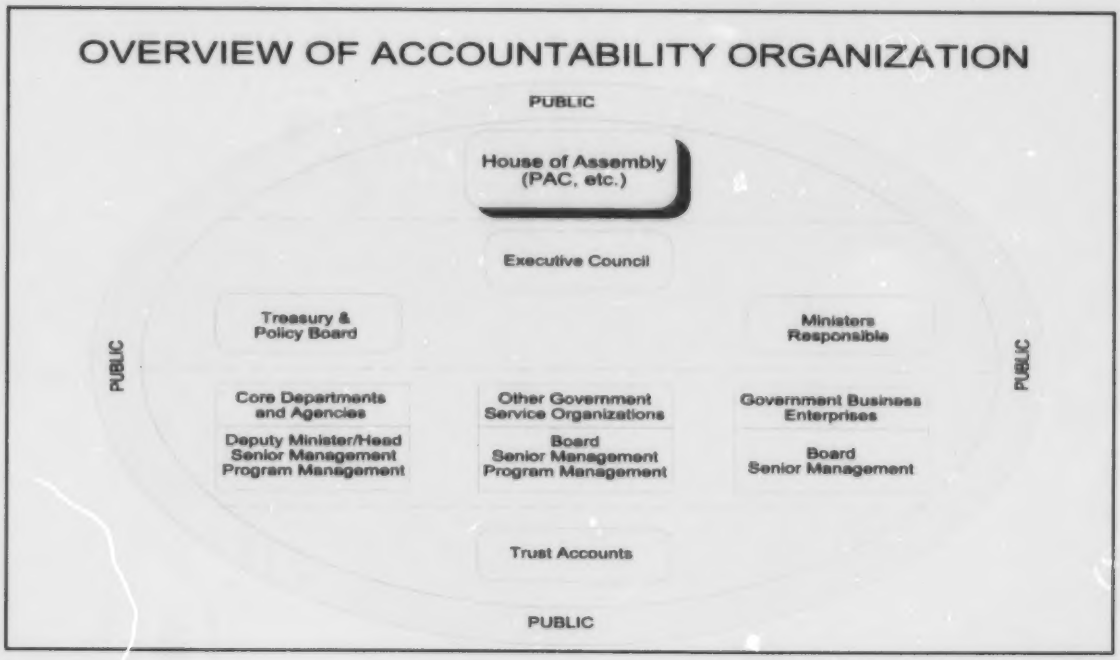


Exhibit 2.3

EXTRACTS FROM CCAF-FCVI INC. PUBLICATION

"Principles for Building a Public Performance Report - A Discussion Paper from Canada's Legislative Audit Community"

Performance information is **relevant** if it has the following characteristics:

- it relates to the stated objectives of the organization and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
- it is reported in sufficient time to influence decisions;
- it measures something that is significant in that it is used in forming assessments and judgements; and
- it is aggregated at an appropriate and meaningful level.

Performance information is **reliable** when it has the following characteristics:

- it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
- it is reasonably accurate and complete - that is, free from material error or omissions;
- it is capable of being replicated or verified by independent and knowledgeable observers; and
- it faithfully represents the event, results or situation it is measuring.

Performance information is **understandable** if it has the following characteristics:

- it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
- it focuses on a small set of key performance measures;
- it provides comparative information over time and it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining over time; and
- it includes comparative information from similar organizations, when reliable, and information regarding best practice, to provide users with a frame of reference for assessing performance.

Further, the CCAF publication suggests that public reporting of performance must have the following six main attributes if the information is to meet accountability requirements fully:

- performance reports should be focused on results and achievements;
- reporting on performance should be done in the context of expectations;
- performance reports should be complete and unbiased;
- performance reports should, as far as possible, explain the linkages between achievements and activities;
- performance reports should relate costs to results; and
- performance reports should clearly describe the strategies, risks, and external context.

Exhibit 2.4

REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE

FOR THE FISCAL YEAR ENDING MARCH 31, 2002

USED IN THE PREPARATION OF THE MARCH 29, 2001 BUDGET ADDRESS

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2002 (the 2001-2002 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of February 27, 2001. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2001-2002 revenue estimates of $5,134,771,000 for total ordinary revenue. My opinion does not cover the 2000-2001 forecast, the 2001-2002 expenditure estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenditures for appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented summary consolidated financial statement reporting in accordance with accounting principles generally accepted for the public sector in Canada. Consistent with prior years, the 2001-2002 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations, which are now reported as revenue in the Province's financial statements, are excluded from the 2001-2002 revenue estimate for total ordinary revenue, but included elsewhere in the 2001-2002 estimates and have not been included in my examination.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion:

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2001-2002 revenue estimates; and

- the 2001-2002 revenue estimates as presented reflect fairly such assumptions.

Since the 2001-2002 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matter discussed above, the 2001-2002 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
March 23, 2001

Exhibit 2.5

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Nova Scotia

I have audited the consolidated statements of financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2001 and the consolidated statements of operations, net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidatd financial statements present fairly, in all material respects, the financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2001 and the results of its operations, changes in net direct debt and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
September 28, 2001

Exhibit 2.6

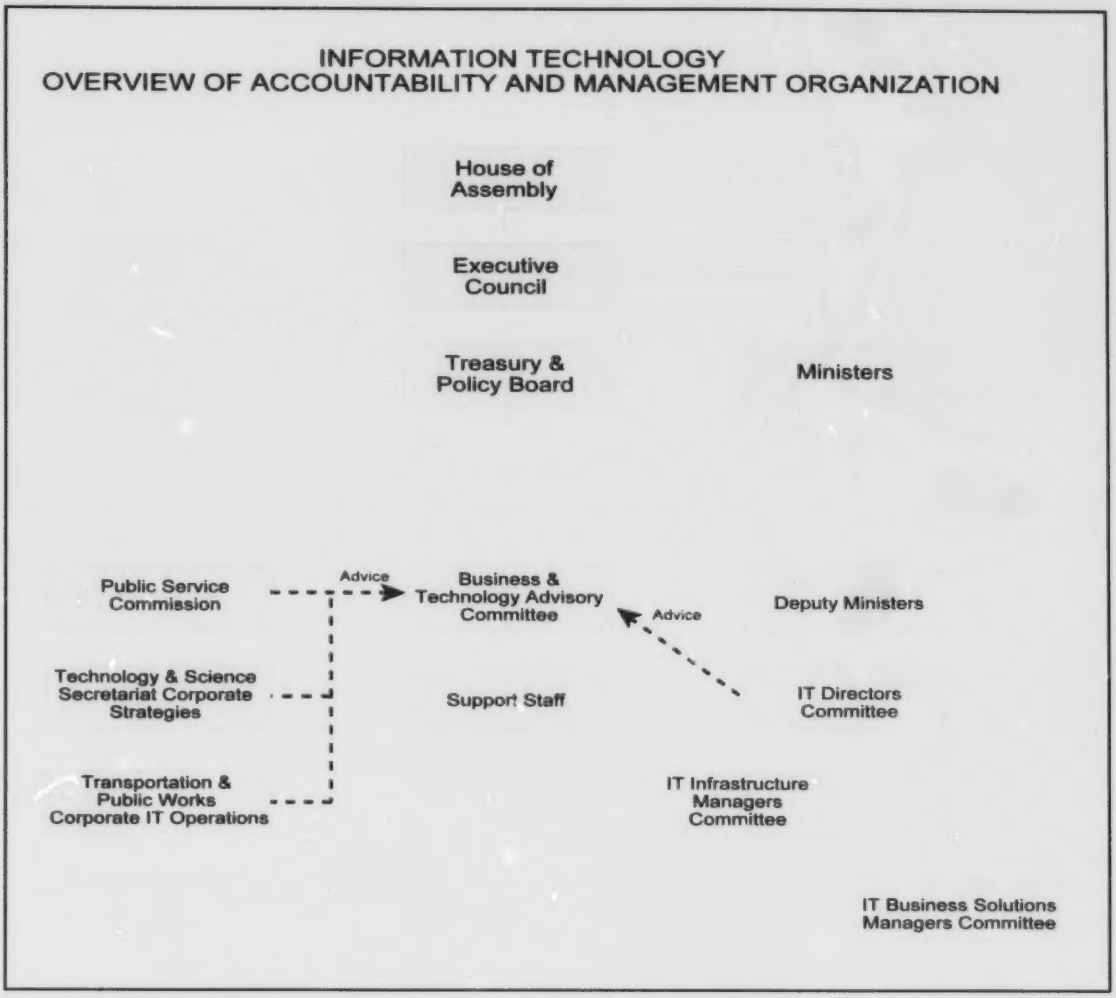

INFORMATION TECHNOLOGY
OVERVIEW OF ACCOUNTABILITY AND MANAGEMENT ORGANIZATION
House of Assembly
Executive Council
Treasury & Policy Board
Ministers
Public Service Commission
Advice
Business & Technology Advisory Committee
Advice
Deputy Ministers
Technology & Science Secretariat Corporate Strategies
Support Staff
IT Directors Committee
Transportation & Public Works Corporate IT Operations
IT Infrastructure Managers Committee
IT Business Solutions Managers Committee

Exhibit 2.7

AUDITORS' REPORT ON CONTROL PROCEDURES

To Halifax Service Delivery Center
EDS Canada Inc.

We have examined the accompanying description (pages 2-6) of the stated internal control objectives of the Halifax Service Delivery Center of EDS Canada Inc. (*"HSDC"*) and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at February 28, 2001. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our examination was limited to control objectives relating to the mainframe partitions used by the Government of Nova Scotia.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and the control procedures existed as at February 28, 2001.

As we tested the existence of the control procedures only as at February 28, 2001, we do not express an opinion on whether the control procedures existed at any other time.

The description of stated internal control objectives at the HSDC, and the control procedures designed to achieve those objectives is as of February 28, 2001. Any projection of that description to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the HSDC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

Halifax, Canada
February 28, 2001

Ernst & Young LLP
Chartered Accountants

PUBLIC ACCOUNTS COMMITTEE - DECEMBER 1996 REPORT
SUB-COMMITTEE ON PUBLIC ACCOUNTS - RECOMMENDATIONS

Summary of Recommendations		Action Taken/ Planned	Notes and Comments
Overall Accountability Information and Reporting			
i.	*The provision of sufficient, appropriate, understandable and timely (i.e. quality) accountability information and reports to the House of Assembly should be required by statute, but with the specific form and nature determined by government policy or other directives.*	*Yes*	*Quality of information and reports provided will need to be assessed.*
ii.	*Accountability information and reports should be available to the House of Assembly on the plans and performance of government overall as well as individual departments and agencies, both from a financial and a program delivery or service perspective.*	*Yes*	*Initial reporting on outcomes required by June 2000. Amendments to Provincial Finance Act released December 20, 2001.*
iii.	*A comprehensive review and analysis of accountability related statutory provisions in place in other jurisdictions should be considered, and could support the development of draft statutory provisions/proposals for Nova Scotia.*	*Yes*	*Provincial Finance Act amendments*
iv.	*Departments and crown corporations or agencies (including inter-provincial crown entities with head-office operations outside of Nova Scotia) should be required to provide accountability information and reports to the House through a responsible Minister. For inter-provincial crown entities with head-office operations outside Nova Scotia the application of the provisions of the Auditor General Act and other provincial statutes need to be clarified.*	*Yes*	*Application of NS statutory (including the AG Act) or policy requirements remains an issue re: interprovincial crown entities with head offices outside Nova Scotia.*

Exhibit 2.8

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
Overall Accountability Information and Reporting		
v. If accountability information or reports will not be tabled when required, the House (i.e. to the Clerk of the Legislative Assembly) should be notified with a full and complete explanation, so Members will be made aware of the delay. This explanation should state an approximate date as to when the report requirement will be met.	*Unknown*	
vi. The statutory framework or standard shall also provide for timely interim reporting by government against its overall plans and budgets. The sub-committee recognizes the May 1996 amendments to the Provincial Finance Act require quarterly financial reporting on the state of public finances.	*Yes*	
vii. Information in the Supplement to the Public Accounts, which traditionally has only included information about departments and agencies using Finance's central financial systems, should be required for crown corporations and agencies, and other Provincial public sector entities. Given the varied functions of such corporations, agencies and other entities, practical reporting requirement limits may vary from those required by government departments.	*Unknown*	

Exhibit 2.8 (Cont'd)

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
Estimates and Budgeting		
viii. Additional appropriations and special warrants need to be reviewed by the House of Assembly on a more timely and effective basis. Where a department or agency has been allocated an additional appropriation the appropriation should be tabled in the House of Assembly or if the House is not sitting it shall be deemed tabled with the clerk of the House. The amount of the appropriation must also be included.	*Unknown*	*Timing of additional appropriation approvals reduces House's effective control over spending authorities.*
Province's Financial Statements (i.e. the Public Accounts)		
ix. Full consolidated financial statements for the Province should be a primary financial accountability report for government, and there should be consolidated estimate or budget information against which the actual financial position and results can be assessed by the House of Assembly.	*Yes*	*Consolidated financial statements implemented in 1999. Estimates focus primarily on Consolidated Fund revenue and expenses, with adjustment to get budgeted surplus/deficit on consolidated basis.*
x. In determining the reporting entity for purposes of the Province's financial statements, as well as other accounting policy and disclosure decisions, the government should adopt the public sector accounting recommendations issued by the Canadian Institute of Chartered Accountants.	*Yes*	
xi. The annual surplus or deficit, in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, should be the only factor causing a change in the Province's net direct debt.	*Yes*	

Exhibit 2.8 (Cont'd)

Summary of Recommendations		Action Taken/ Planned	Notes and Comments
xii.	*The Provincial Finance Act should be amended so that the full Public Accounts (including full consolidated financial statements) are released at the same time as the annual Financial Report, or at least within nine months of year-end.*	*Yes*	*Public Accounts, including government's summary consolidated financial statements (SCFS), must be released by December 31.*
xiii.	*The Auditor General should provide an opinion on the Provinces's financial statements to the House of Assembly on a timely basis. If the House is not sitting the report should be deemed tabled with the Clerk of the House.*	*Yes*	*Auditor General began auditing and reporting on the government's SCFS in 1999.*
Annual Reporting			
xiv.	*Annual reports (i.e. whether for government overall, its departments, crown or other agencies) should be tabled or deemed tabled in the House of Assembly within six months after the end of the fiscal year to which the reports apply.*	*Yes*	*In process - government is working on new policy statements and guidelines re: accountability reporting and annual reports.*
xv.	*If an annual report is not tabled by a defined deadline, a full and complete explanation should be tabled or deemed tabled in the House of Assembly. (See recommendation v. for further details.)*	*Unknown*	
xvi.	*There must be adequate policy direction and provision of government guidelines provided by the government to departments, crown or other agencies including direction on format and content of annual reports and other information to be provided to the House of Assembly.*	*Yes*	*In process - see above comments.*

Exhibit 2.8 (Cont'd)

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
Auditor General's Mandate and Reporting		
xvii. The release of the Report of the Auditor General should not be restricted or tied to specific actions or events the timing of which are controlled by government. In this regard, changes should be made to the Auditor General Act allowing the Auditor General to report to the House (table or deemed tabled) at least once, but no more than three times, each year, with the timing to be established at the discretion of the Auditor General.	*Yes*	*Auditor General Act amended in 1998.*
xviii. The results of any independent professional standards and/or peer review functions of the audit activities of the Auditor General should be made available to the PAC on a timely basis, along with the Auditor General's comments on action taken or planned to address improvements necessary.	*Yes*	*Results of such reviews included in Auditor General Report.*

Exhibit 2.8 (Cont'd)

Exhibit 2.9

TRANSPORTATION TRUST FUND
SUMMARY CONTINUITY TOTALS REPORTED MARCH 31, 1991 TO 2001

Opening Balances - April 1, 1990	$ -
Revenue collected	382,639,002
	382,639,002
Refund of Payments	12,612,029
Transportation and Public Works Expenditures	339,480,481
Transfers to Consolidated Fund	30,561,188
	382,653,698
Ending Balance - March 31, 2001	$ (14,696)

Exhibit 2.10(a)

ACTUARIAL OPINION WITH RESPECT TO
THE ACTUARIAL VALUATION AS AT DECEMBER 31, 2000
OF THE NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

This opinion is given with respect to the Nova Scotia Public Service Superannuation Plan (the "Plan"), Registration number 0284521 under the Canada Customs and Revenue Agency.

We performed a valuation of the Plan as at December 31, 2000 based on the Plan provisions and data as at that date. The Province has confirmed that no modifications or extraordinary changes to the membership, that would materially affect the results of this actuarial valuation, have occurred during the period from December 31, 2000 to the date of this report.

We hereby certify that, in our opinion, as at December 31, 2000:

a) The Plan is fully funded. The actuarial value of assets exceeds the actuarial liabilities, on a going-concern basis, by $21.2 million.

b) The Plan's liabilities would exceed the Plan's assets by $87.7 million if the Plan were to be wound up on the valuation date.

c) The total normal actuarial cost for the 12 months starting January 1, 2001 is $88.3 million, which compares with the employee's and matching employer contributions of $67.8 million, resulting in a deficit of $20.5 million or 3.4% of covered pay.

In our opinion:

a) The data on which the valuation is based are sufficient and reliable for the purposes of the valuation.

b) The assumptions used are, in aggregate, appropriate for the purposes of the valuation.

c) The methods employed in the valuation are appropriate for the purposes of the valuation.

This report has been prepared, and our opinion given, in accordance with accepted actuarial practice. The assumptions that form each actuarial basis used in the report were reasonable at the time this actuarial valuation report was prepared and contributions were determined.

The calculations in the actuarial valuation report have been prepared in accordance with subparagraph 147.2(2)(a) of the Income Tax Act.

The recommendations and opinions are given exclusively from a financial viewpoint. This valuation report does not constitute a legal opinion on the rights or duties of the Plan administrator, the Province or the members over the pension funds.

Actuarial valuations are performed based on assumptions and methods that are in accordance with sound actuarial principles. Emerging experience differing from these assumptions may result in gains or losses, which may affect future contribution levels. These will be revealed in future actuarial valuations.

Due to the current service cost contribution deficit, the Plan's financial position, and the financial market performance during the first 6 months of 2001, we recommend that the next actuarial valuation be performed no later than as at December 31, 2001.

Exhibit 2.10(b)

ACTUARIAL OPINION WITH RESPECT TO
THE ACTUARIAL VALUATION AS AT DECEMBER 31, 2000
OF THE NOVA SCOTIA TEACHERS' PENSION PLAN

Based on the results of this valuation, we hereby certify that, as at December 31, 2000,

- The plan's current service cost for 2001 and subsequent years, up to the next actuarial valuation should be calculated as 15.54% of teachers' pensionable earnings.

- The estimated teachers' required contributions and matching Government contributions are expected to be $51,253,000 each, which will exceed the current service cost for the 12 months following the valuation date, $91,138,000, by $11,368,000 which will be applied against the unfunded liability.

- The plan would be fully funded on a going-concern basis if its assets were augmented by $212,191,000.

- In our opinion,
  - the data on which the valuation is based are sufficient and reliable for the purposes of the valuation,
  - the assumptions are, in aggregate, appropriate for the purposes of determining the funded status of the plan as at December 31, 2000 on a going concern basis and determining the funding requirements, and
  - the methods employed in the valuation are appropriate for the purposes of determining the funded status of the plan as at December 31, 2000 on a going concern basis and determining the funding requirements.

- This report has been prepared, and our opinions given, in accordance with accepted actuarial practice.

- All assumptions made for the purposes of the valuation were reasonable at the time the valuation was prepared.

Exhibit 2.11

DISTRIBUTION OF ACTIVE MEMBERS AS AT DECEMBER 31, 2000

Age	PSSP		NSTPP	
	#	%	#	%
20 - 24	91	0.7	47	0.3
25 - 29	1,414	10.6	418	2.9
30 - 34	1,456	10.9	1,286	8.8
35 - 39	1,365	10.2	2,349	16.2
40 - 44	1,869	14.0	2,973	20.4
45 - 49	2,680	20.0	3,095	21.3
50 - 54	3,457	25.9	2,645	18.2
55 - 59	874	6.5	1,288	8.9
60 plus	162	1.2	441	3.0
Total	13,368	100.0	14,542	100.0

FINANCIAL PLANNING AND BUDGETING

3.

FINANCIAL PLANNING AND BUDGETING - CENTRAL GOVERNMENT AND DEPARTMENTS

BACKGROUND

3.1 This Chapter describes the results of our government-wide audit of the financial planning and budgeting processes for 2001-02. It includes commentary on the roles of central government (i.e., Finance, Treasury and Policy Board, Executive Council) and major departments (i.e., Health, Education and Community Services).

3.2 Annual business planning and budgeting by government provides the basis and a fundamental cornerstone for control over the use or stewardship of public money and property. Once debated and approved, the annual Appropriations Act (supported by the *Estimates* and other planning and budget information tabled in the House of Assembly) provides the foundation upon which the government can be held to account.

3.3 Estimating future financial results is a challenge as there is always uncertainty associated with predicting the future. However, a well-designed budget process, including features such as due diligence and quality control, can reduce the impact of variances between budget and actual, and the risk of overexpenditure.

3.4 The Province of Nova Scotia's history of annual deficits over the past two decades has been the major contributing factor to the Province's poor financial position. Of the Province's net debt of $11.3 billion as at March 31, 2001, $8.7 billion is due to accumulated deficits while the remainder relates to the purchase of tangible capital assets. The government's fiscal plan calls for a balanced budget by 2002-03, and beyond. To achieve the government's fiscal plan, a strong financial planning and budgeting process must be in place. Otherwise, achievement of the fiscal plan will be at risk.

3.5 The Minister of Finance had overall responsibility for the preparation and presentation of government's plans and budget to the House of Assembly for the 2001-02 fiscal year, including a plan for the four-year fiscal period commencing April 1, 2001. The preparation, review and publication of government's business plan and budget involves significant resources centrally from the Department of Finance and the Treasury and Policy Board, as well as from all departments and agencies.

3.6 For the 2001-02 fiscal year, government budgeted, for the Consolidated Fund, ordinary revenue of $5.1 billion, and net expenses of $5.2 billion. The Province's budgeted deficit, after adjustment for $8.0 million of income from government business enterprises, is $90.7 million. This is consistent with the government's fiscal plan. In addition, the budget includes $186.9 million in planned capital purchases, of which $172.0 million relates to the Departments of Education and Transportation and Public Works.

Audit Approach

3.7 Due to the critical nature of the financial planning and budgeting process, we undertook a government-wide audit of this important area during 2001. We last performed an audit of this area in 1993.

3.8 The mandate for this audit is found in Section 8 of the Auditor General Act which gives the Auditor General the authority to determine whether:

- controls are adequate to safeguard government resources; and
- funds are expended with due regard for economy and efficiency.

3.9 We did not audit all aspects of the budget process, in all organizations and departments. Rather, we focussed on the processes present in central government, and in the departments with the most significant expenditures. The departmental aspects of our audit were focussed on the Departments of Community Services, Education and Health, as well as the Department of Finance's budgeting of debt service costs. Together, the areas audited represented 85% of the net expenses included in the 2001-02 Estimates. We also audited the Capital District Health Authority's budgeting processes because the Department of Health's grant to the Authority represents 23% of the Department's operating expenditures (see Chapter 5 of this Report). Finally, we audited the government's processes for prioritization of capital expenditures (see Chapter 4 of this Report).

Approaches to Budgeting

3.10 The basic purpose of annual budgeting in government is to establish a plan for allocation of resources to accomplish stated goals and objectives over a designated time period. There are a range of possible approaches to preparation of a budget which may be appropriate in different circumstances. For example:

- *Zero-based* budgeting requires basic re-evaluation of an organization's priorities, programs and expenditures on an annual basis. Each department would be required to justify the entire budget in detail, and to provide reasons why any funds should be spent on a given program. The basic assumption is that *zero dollars* will be spent on any given activity, and all amounts above that level must be justified. Obviously, in a government where there are many diverse programs and the expenditure budget is more than $5 billion, such an approach would require an enormous commitment of time and effort. In addition, many of government's expenditures are statutory and cannot be reduced unless legislation is changed.

- *Line-item* budgeting is the most rudimentary form of budgeting and was the approach first used by modern governments. The process involves the listing of individual expenditure categories (e.g., salaries, supplies) and the focus is on inputs used rather than outputs achieved. With this method, there would be no long-range planning.

- *Incremental* budgeting emphasizes justification of only those amounts above the prior year's budget. Under this approach, the prior year's budget would be identified as the base budget for the current year, and any requests for increments above that level would be reviewed individually in more detail.

- *Status quo* budgeting emphasizes the future cost to deliver the current level of service. Under a status quo approach, the cost to deliver current services during the upcoming year would be quantified. In preparing a status quo budget, forecasted changes in the costs of wages and other inputs as well as demographics would be factored into the budget. If the cost was greater than the available funding, then recommendations to change the status quo would be made. These recommendations could include enhancing revenues, cutting programs, or reducing the level of services provided.

- *Target-driven* budgeting requires centralized decision making, early in the budget process, regarding targeted expenditure levels for departments, agencies, and programs. Budget preparers are then required to fit budgets to the targeted expenditure level. If the targeted expenditure level cannot be met, then specific pressures would be identified for further decision and approval.

- *Performance* budgeting has an output orientation. It establishes a relationship between inputs employed and outputs achieved. The budget is produced by determining the unit cost of providing services and establishing the quantity of services to be provided. This leads to an estimate of the cost of meeting specific service levels. This approach provides the information required to establish new services or to make changes to existing service levels.

- *Program* budgeting involves the setting of specific government objectives, developing budgetary proposals in terms of programs for meeting the objectives, and multi-year planning. The process is longer range and focuses on programs rather than inputs and outputs. This approach would provide information on the estimated full future cost of programs.

3.11 There are many factors which could lead to selection of a particular method of budgeting. For example:

- *Impact on human behaviour* - Does the method motivate people to achieve the organization's goals?

- *Types of expenditures* - Are the expenditures statutory or discretionary or the result of a government commitment?

- *Government organization* - Is the government's basic management structure and approach centralized or decentralized? Is there strong control at the central level or are important fiscal decisions and responsibilities delegated to the departments?

- *Fiscal situation* - Is the government in a strong financial situation and are funds being directed to new programs? If so, one would expect that the budget process would focus on justification and approval of new programs and increased spending. Is government in a weak financial situation and is the objective to meet only the most critical needs at the least possible cost? If so, one would expect that the budget process would focus on ensuring that all programs or service levels are necessary and delivered at the least possible cost.

- *Extent of required change in programs* - Is government satisfied with the status quo or is extensive modification and reallocation required?

- *Economic outlook* - Is the economy of the Province expected to have a major impact on government services and costs during the next year?

- *Government's goals and priorities* - Are the priorities and goals well defined, understood and fully supported within the government's reporting entity?

- *Performance measurement* - Does the government have sophisticated performance measurement systems which provide decision makers with information on the outcomes of government policies and programs?

3.12 The Nova Scotia government's current budgeting process has elements of several of the approaches to budgeting described in paragraph 3.10 above. Due to the Province's fiscal situation, and the importance placed on meeting the government's fiscal plan, the 2001-02 process was primarily *target-driven*. Many times during our audit, we were told that "*there is no more money*" and that basic premise appears to have been the major driving force towards selection of a target-driven approach. Central government sets targets, based on the second-year projection included in budgets approved in the prior year, and communicates these to the departments. However, in drafting budgets to meet the targets, departments are directed to emphasize status quo service delivery and to identify cost pressures and revenue opportunities for review and approval by central government. The directions received by the departments therefore also include elements of *status quo* and *incremental* budgeting processes.

3.13 Within departments, targets are set for various programs, cost centres and funded agencies. Again, the process appears to be primarily *target-driven*. In the Fall of 1999, the government undertook a detailed review of its program spending. This review included a Fiscal Task Force, Program Analysis and Options Exercise, a review of programs by sub-committees of Cabinet and the development of a two-year budget. Management indicated that the targets for 2001-02 were based on the second year of the budgets developed as a result of these processes.

3.14 Budgeting processes are, by nature, iterative and based on negotiation. The processes are also complex. Many stakeholders including the House of Assembly, Executive Council, central government, departments, agencies, transfer payment recipients, special interest groups and others are involved. There are more than 70 departments and other Provincial public sector entities involved in the process.

3.15 In Nova Scotia, central government sets funding targets for the departments. Departments compare funding targets with estimated requirements and identify cost pressures and opportunities for discussion with central government and Executive Council. Over several months, the cost pressures are discussed and negotiated and, ultimately, a final budget is accepted by Executive Council. The Minister of Finance then presents the *Budget Address* along with the annual Estimates and other supporting documents to the House of Assembly to commence the formal parliamentary review and approval process. Although central government sets the departmental targets, individual departments are responsible for meeting the targets. Departments are responsible for assessment of the impact of targets, preparation of operational plans and implementation.

3.16 The amount and type of documentation required to support such a process is decided by central government. Policies, forms, templates and other guidance set out these decisions for the participants. In the past, government's budgeting policies were included in the government's Management Manual 200. The Manual has not been updated since 1994 and is not current.

Professional Guidance

3.17 Budgeting is essentially a planning and control tool for governing bodies and managers. Selecting and implementing an appropriate budgeting system are critical for government. There is no single professional standard to indicate how this should be done.

3.18 Related professional guidance is, however, available from several sources including:

- CCAF-FCVI Inc.'s *Governance Information - Strategies for Success* and *Information: The Currency of Corporate Governance*
- Canadian Institute of Chartered Accountants' Handbook - Section 4250 - Future-oriented Financial Information

- Canadian Institute of Chartered Accountants' Public Sector Accounting Board Handbook
- Office of the Auditor General of Canada's *Financial Management Capability Model and Application Guide*
- Auditor General of British Columbia's *A Review of the Estimates Process in British Columbia*, February 1999

3.19 We reviewed these and other professional reference sources and used the standards included therein as criteria to frame our audit of the budget process.

Government Organization

3.20 The Provincial Finance Act provides statutory requirements which were in effect for government's 2001-02 planning and budgeting processes (see extracts in Exhibit 3.1 on page 64 of this Chapter). That Act requires the Minister of Finance to prepare a consolidated fiscal plan for the government each year. The plan must include fiscal projections for the next four years, the major economic assumptions made in preparing the plan and a summary of the government's business plan for the next year.

3.21 Restructuring initiatives implemented during 2001-02 transferred certain of Finance's budget-related positions to Treasury and Policy Board along with responsibility for planning, budgeting and monitoring expenses. Finance staff will continue to have responsibility for budgeting activities associated with government's economic assumptions, revenues and treasury components.

RESULTS IN BRIEF

3.22 The following are the principal observations from this audit.

- We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. The approach was driven by targets established as part of the government's four-year fiscal plan. We made recommendations for improvement to certain aspects of the Estimates process.
- The March 29, 2001 Budget Address was the first time since March 23, 1984 (i.e., for the 1984-85 fiscal year) that a Nova Scotia government's budget was presented to the House prior to the start of the fiscal year to which it applied. The Appropriations Act passed Third Reading in the House on April 20, 2001. Further, March 27, 1975 (i.e., for the 1975-76 fiscal year) was the last time an annual Appropriations Act received Royal Assent prior to the start of the fiscal year to which it applied. Government should strive to ensure annual plans and budgets are finalized and approved prior to the start of the fiscal year to which they apply.
- Information on program performance is not integrated with the budget process. Performance information should be a major consideration during budget decisions. The information provided to the House along with the Budget Address should completely identify the nature and extent of significant program changes or adjustments made as a result of decisions during the budget process. Financial budget information should be clearly linked and cross-referenced to program service or program delivery plans, including information provided on planned outcomes or targets.

- The budget targets for 2001-02 were communicated to the departments by the Department of Finance and were generally based on the prior year's budget adjusted for certain "funded" cost pressures. In some cases, where funded amounts were less than the initially identified cost pressures, departments did not have operational plans in place to meet the targets. The lack of an operational plan in certain programs increases the risk of overspending the budget target, and we recommend that government ensure annual operational plans, linked to the budget targets, are prepared for all major government programs and entities.

- The roles and responsibilities of central government and departmental staff in the 2001-02 process appear to have been well-defined and understood by those involved, most of whom had previous business planning and budgeting experience in government.

- Additional planning information and budget guidelines should be provided to departments and agencies included in the government's reporting entity. These guidelines should include economic and other general overall assumptions or operational parameters that should be considered and, where appropriate, integrated into the individual entity's planning and budgeting processes.

- Departments need to improve processes for communicating program-specific assumptions implicit in departmental budget requests. This information is required so that decision makers can assess the reasonableness of the budget requests submitted. We expected that departments would provide written guidelines and instructions to agencies and transfer payment recipients to use in preparing budgets, including common assumptions to be used. These would help to ensure budgets are consistently prepared and that potential funding issues are identified. This was generally not the case. Instructions from departments usually included very high level directions such as *produce a balanced budget* or *assume existing service levels*.

- The Government's estimated revenues and related economic assumptions are supported by a variety of formal and less formal systems and models. The assumptions and risks used in determining the estimated revenues are well documented.

- There are extensive supporting information and models for the budgeting of net debt servicing costs. In the formal budget documents released along with the Minister's Budget Address, the debt-related treasury aspects of government's plans and budget are well covered.

  In order to improve control, borrowing authorities should have a defined life span and carry-forward borrowing authority amounts should be included in the information provided to the House of Assembly when additional borrowing authority is requested.

- The House does not have or receive sufficient, appropriate information on the components of the restructuring costs appropriation in order to support effective review, debate and approval by MLAs. We did not have full unencumbered access to the information supporting the amounts budgeted for 2001-02 restructuring costs. The information not available to us related to the government's labor relations strategy which supports the wage settlement allocation in the restructuring costs appropriation. Finance had previously obtained a legal assessment on restricting access to such budget supporting information. We recognize the difficulty of balancing the need to protect the government's negotiating position, as an employer, with the need for transparency.

- The budget submission of the Department of Health included insufficient detail on cost pressures. The Province hired consultants to complete a joint review of the Department of Health's budget process with the goal of suggesting improvements for future years. The consultants indicated that Health had developed a clear vision and direction for the health system. However, information systems for certain major programs with a history of overexpenditure (such as home care and long-term care) were deficient. The consultants also noted deficiencies in the information systems for acute care, mental health and other programs delivered by District Health Authorities. Due to health system restructuring concurrent with the budget process, we believe that the 2001-02 budget preparation process was not typical for the Department of Health.

- Department of Health management was aware of the problems with the 2001-02 budget process and is addressing the deficiencies. There were initiatives in progress to improve available information in various health sectors.

AUDIT SCOPE

3.23 The objective of this audit was to determine if government is:

- establishing mechanisms and making commitments to afford the House of Assembly and public the opportunity of examining the government's fiscal plans and assessing its fiscal and program performance;
- developing the form and content of the Estimates to meet the needs of the public, House of Assembly, government and management;
- making a commitment to responsible stewardship;
- ensuring the quality and integrity of information for decision making;
- monitoring and evaluating the conduct of the Estimates process;
- establishing an organizational and procedural environment that promotes communication and respect for the roles of agencies and persons involved;
- promoting public awareness and understanding of fiscal conditions, decisions and risks; and
- ensuring the capacity of the House of Assembly to carry out its oversight role.

3.24 The audit focused on systems and procedures to support the preparation of the 2001-02 Estimates and related information, and did not include the formation of an opinion on the reasonableness of the amounts included in the Estimates document. Consequently, we express no opinion on reasonableness of the Estimates, or whether all assumptions are suitably supported, consistent with the plans of the government, provide a reasonable basis for the Estimates, and are fairly reflected in the Estimates.

3.25 Our audit focussed on the Estimates-preparation processes present in central government, and in the departments with the most significant expenditures. The departmental aspects of our audit were focussed on the Departments of Community Services, Education and Health, as well as debt servicing costs managed by the Department of Finance. We also audited the Capital District Health

Authority's budgeting processes because the Department of Health's grant to the Authority represents 23% of the Department's operating expenditures (see Chapter 5 of this Report). Finally, we audited the government's processes for prioritization of capital expenditures (see Chapter 4 of this Report).

3.26 During the planning for the audit, we researched best practices and identified six key elements of a sound planning and budgeting process:

- Comprehensive accountability discipline
- Sound fiscal management
- Open deliberative Estimates process
- Sound financial reporting standards
- Appropriate governance and management structure
- Sound monitoring process

3.27 We established audit criteria to use as standards for assessment of government systems and practices. The same audit criteria were used in all of the departments and entities audited. The audit criteria were taken from recognized sources referred to in paragraph 3.18 above. The criteria were organized under the six key elements of a sound planning and budgeting process referred to above and discussed with senior management at the departments audited and the Capital District Health Authority.

3.28 Our audit approach consisted of interviews with management and budget staff, and examination of reports, documents and correspondence.

3.29 Our audit plan indicated that we intended to engage the House of Assembly or the Public Accounts Committee in a survey or discussion process in order to identify their information needs. However, due to scheduling and resource challenges, we were unable to complete that dialogue for this Report. We will consider completion of that aspect of the audit in future years.

PRINCIPAL FINDINGS

3.30 The findings of our audit are presented in this Chapter under the following headings:

- Statutory and Policy Framework
- Accountability to MLAs
- Approach to Annual Business Planning
- Approach to Annual Budgeting
- Quality of Information Relating to Expense Estimates
- Central Challenge and Review
- Role of Operational Plans
- Timeliness
- Estimate of Revenue
- Debt Service Costs and Other Treasury Items
- Restructuring Costs
- Relationship with Funded Organizations
- Additional Appropriations
- Forecasting and Monitoring

3.31 The information and findings provided in this Chapter should be considered in conjunction with the contents of Chapters 4 and 5 of this Report which deal with certain other aspects of government's planning and budgeting processes.

Statutory and Policy Framework

3.32 Annual business planning and budgeting by government provides a fundamental cornerstone for control over the use and stewardship of public money. Once debated and approved, the annual Appropriations Act (supported by the Estimates and other planning and budget information) provides the foundation upon which the government can be held to account.

3.33 The Provincial Finance Act provides various statutory directions or requirements that were in effect for the 2001-02 planning and budgeting processes. Exhibit 3.1 on page 64 of this Chapter includes extracts from the Provincial Finance Act.

3.34 The Provincial Finance Act requires the Minister of Finance to prepare a consolidated fiscal plan for the government each year. This plan must include fiscal projections for the next four years, the major economic assumptions made in preparing the plan and a summary of the government's business plan for the next year.

3.35 Under Section 83 of the Provincial Finance Act, the Minister must also provide the House of Assembly with a report, by December 31, on outcomes against the government's business plans for the prior fiscal year. The initial reporting under this requirement was released December 20, 2001 for the 2000-01 fiscal year. Unless appropriate outcome measures and targets are established, it is difficult to allocate resources and determine the adequacy of the allocation. We are aware that outcome measures are being developed centrally and at the departmental level. We recommend that such performance information be fully integrated into the budget process, which we understand is government's intention.

3.36 We found that the three departments audited had established outcome measures, but that, in some cases, they were not fully developed yet and targets had not been established for many programs. We also found that performance information had not been fully integrated into the budget process. Better integration of budgets and performance information would assist decision makers in assessing the adequacy of the resources allocated to departments and programs.

Accountability to MLAs

3.37 The House of Assembly has ultimate authority for the Province's budget. In order to exercise that authority with due diligence, the Members of the House need good information. According to CCAF-FCVI Inc. (*Governance Information - Strategies for Success*, CCAF-FCVI Inc., 1996), good information for governance has the following characteristics.

- *Explains options* - Information should identify and explain the options considered and the consequences of each.
- *Compares intentions with results* - Information should facilitate the comparison of actual to intended performance and outcomes.
- *Forward looking* - Information should be forward looking and contribute to future policy or strategic planning decisions. It should help determine if performance can be sustained or improved in the future, not just explain past actions.

- *Illuminates policy and administration* - Relevant information will shed light on both the established policy and how that policy is administered.
- *Recognize appropriate time frames* - Information needs to relate to what is actually being done within the time frame it is being done.
- *Facilitates comparisons* - While recognizing the unique characteristics of each organization, relevant information about organizations in similar lines of business should be provided for comparison purposes.
- *Promotes understanding without simplifying* - Information should balance the need for understanding and simplicity with the complexity of the programs, services or organizations involved.

3.38 Information presented with or supporting the Estimates should be verifiable and free from material error or bias. Users of the information should be able to depend upon it to faithfully represent what it purports to represent and the information should be linked to and consistent with economic and program-related assumptions.

3.39 Government's budget is not presented on the same basis as the government's annual summary consolidated financial statements included in Volume I of the Public Accounts. The annual budget still has a primary or predominant focus on the Consolidated Fund and does not include the budgets of all Government Service Organizations (GSOs) and Government Business Enterprises (GBEs) in the same manner as their results are reported in the government's financial statements. Although we recommend a change in how government includes GSOs and GBEs in the budget, we acknowledge that the budgeted annual surplus or deficit, under the government's current method, ultimately encompasses the government's reporting entity. Aside from the method of including GSOs and GBEs, the budget was prepared in accordance with generally accepted accounting principles. Any other exceptions we encountered were insignificant.

3.40 As noted in the March 31, 2001 financial statements, the net deficit from GSOs was $278.6 million and the net income from GBEs was $297.0 million. The House of Assembly's involvement in the budget process does not formally extend to the business plans or budgets of significant GSOs (other than government departments) and GBEs. Some significant GSOs and GBEs entities are reflected at "net" rather than gross revenues and expenditures. Accounting for these on a net basis impairs the transparency of the presentation in the Estimates document. These entities collect and spend significant amounts of public funds each year. Observations and recommendations with respect to the planning and budgeting processes for GSOs and GBEs are noted in paragraphs 3.105 to 3.112.

3.41 The information provided to the House along with the Budget Address could more completely identify the nature and extent of program changes or adjustments made as a result of decisions in the budget process. Financial budget information should be clearly linked and cross-referenced to program plans, including information provided on outcomes or targets.

3.42 We believe it is imperative for readers of the business plans and budget information to be able to clearly identify significant changes that result in the plans and budget being presented on a basis different than prior years. Government has an obligation to ensure sufficient, appropriate supporting information is available to MLAs, as a matter of course, to support the substance of budget debate in the House.

3.43 However, it is not possible for the Auditor General or government to anticipate all significant information needs of MLAs. In this regard, one option to consider could be an all-party committee of MLAs to identify basic requirements.

Approach to Annual Business Planning

3.44 Business plans serve as the foundation for the budgeting process. The preparation, review and publication of government's business plan and budget involve significant resources centrally from Finance and Treasury and Policy Board (TPB), as well as from all departments and agencies. The format and templates used to prepare the business plans were developed by an interdepartmental Policy Advisory Council. Departments were required to prepare business plans for 2001-02 as in prior fiscal years. Key information included in each department's business plan includes a mission statement, core business functions, goals, priorities, and outcome measures. Information contained in these business plans was incorporated into the Government Business Plan.

3.45 In the three departments audited, we found that senior management was appropriately involved in the business planning process. In certain cases, we recommended that the linkage between government priorities and the departmental business plans be more clearly stated. We also were interested in whether the priorities and strategies developed in the departmental business planning processes would be clearly identified in the annual budget documents. In some cases, we recommended that the linkage between the business plans and the budget be clarified.

Approach to Annual Budgeting

3.46 Government's 2001-02 planning and budgeting processes began in summer 2000 and culminated in the tabling of the Minister of Finance's Budget Address and related supporting information on March 29, 2001. The Estimates were subsequently approved on April 20, 2001 by the House of Assembly.

3.47 In August 2000, senior management of the Premier's Office, Finance, and Treasury and Policy Board met to discuss the time line and organization of the process. Three key dates were identified - before the end of December 2000 a meeting with Cabinet to discuss policy directives, consultations with Cabinet in January to February 2001 and budget by the end of March 2001.

3.48 Central government developed and maintained a detailed project management and task schedule throughout the process leading up to the release of the Government's business plans and budget for 2001-02. The schedule explicitly noted the roles and responsibilities of central government staff, most of whom had previous business planning and budgeting experience in government. There were over 200 tasks identified on the plan, including presentations to or consultations with Cabinet during the ongoing process. The tasks were categorized on the schedule under the following headings:

- Cabinet review process;
- budget alignment (finance);
- departmental planning process;
- communications strategy; and
- budget logistics.

3.49 For purposes of the 2001-02 expense budgeting process, the departments were basically viewed as three groups: Education, Health, and all other departments. This facilitated the centralized review process. Due dates for completing certain tasks were communicated to departments in various memos as the budget process continued. We suggest that a complete timetable for preparation of the business plans and budget be communicated at the outset of the process.

3.50 Economic assumptions and the estimates of revenue were the responsibility of Finance's Fiscal and Economic Policy Branch. The debt service costs and other treasury-related planning and budgeting considerations were prepared through Finance's Investment, Pension and Treasury Services Branch.

3.51 Finance publishes certain statistical projections (e.g., economic indicators and interest rate assumptions) in the Budget Address. Finance did not develop and communicate overall assumptions to be used by departments in preparing budgets.

3.52 Instructions and general guidelines for the 2001-02 business planning and budgeting processes were sent to departments and public service agencies in October 2000. The preliminary budget targets were also communicated to the departments at that time. For other GSOs (e.g., Regional School Boards, District Health Authorities) and GBEs, the responsible Ministers were to provide instructions to these entities.

3.53 Some departmental targets, published in the previous year's budget documents as part of a two-year budgeting exercise, were adjusted as a result of government restructuring, program changes, and results to date during fiscal 2000-01.

3.54 In November 2000, all departments participated in a day long environmental scan session. During this session each department made a short presentation on its 2001-02 preliminary budget target, cost pressures that would impact achievement of the target, internal and external opportunities for cost savings, and any issues or cost pressures not specifically related to one department. Because of time constraints, each department's presentation was limited to 15 minutes.

3.55 In December, the Department of Finance required departments to submit a 2000-01 Budget-Variance Report, and a Pressures, Opportunities and Proposed Actions to Meet the Fiscal Targets document. Throughout December 2000 and January 2001, these documents, as well as information presented at the environmental scan session, were used by the Department of Finance to perform a preliminary review of the budget targets of departments and the cost pressures experienced.

3.56 As the Departments of Education and Health were experiencing the more significant cost pressures, they were required to make formal presentations to Executive Council.

3.57 The responsibility for developing plans to deal with unfunded pressures and risks rested with the individual departments. As part of the central government's departmental review process, the risks related to unfunded pressures were discussed. The departments were to plan how they would deal with pressures that remained unfunded.

3.58 Our audit of central government's role and the three departments indicated that budget-related responsibilities were generally well understood, although there was a need to improve the written documentation of policies and responsibilities. Departments had processes in place to meet the time lines set out by the Department of Finance. Generally, the processes involved program managers and financial staff throughout the Departments, as well as communication at regularly scheduled meetings of deputy ministers and senior financial executives.

Quality of Information Relating to Expense Estimates

3.59 We audited the quality of information relating to the expense estimates in the Departments of Community Services, Education and Health. Our findings are presented below.

3.60 *Documentation and support* - We selected a sample of program areas in the Estimates from each Department and examined the supporting documentation, verified calculations and assessed the adequacy of supporting analysis for the items.

3.61 In a good budgeting system, all items included in the budget would be reviewed for reasonableness to ensure they were properly supported. Reasonableness checks, including comparisons against historical data, would be performed and formally documented. Anomalies, if any, would be followed up.

3.62 Our findings at the individual departments are summarized as follows.

Department of Community Services

- Regional office budgets were well supported, but head office budgets were less well documented, particularly in the area of underlying assumptions.
- Senior management and planning staff were involved in the budget process and performed quality reviews.
- The expense budget did not include cost increases for certain programs with expected caseload increases.
- There was no documented plan to address $14 million of unfunded cost pressures. To some extent, this was offset by the fact that the Income Assistance budget may have been greater than required because the impact of declining caseloads was not recognized.

Department of Education

- Budgets for Regional School Boards and the Nova Scotia Community College were based on the prior year's budget, adjusted for funded cost pressures. There were some instances where the assumptions supporting the calculations of the cost pressures were not documented.
- There is no requirement for Regional School Boards or the Nova Scotia Community College to provide the Department with operational plans to meet funding targets.

Department of Health

- We were unable to verify calculations and supporting documentation for some of the items tested, primarily because of deficiencies in health information systems.
- The Department exceeded its budget appropriation for 2000-01 by $61.2 million or approximately 4%. This related mainly to deficits of District Health Authorities, Home Care and Long-term Care. There are deficiencies in the information systems in those sectors.
- Changes from the original budget to the final approved version were not well documented.
- There was no requirement to prepare revised operating plans to support the final Estimates figures in those cases where the funded amount was less than the original request.

3.63 The Department of Finance required departments to prepare a Pressures, Opportunities and Proposed Actions to Meet the Fiscal Targets document as described in paragraph 3.55 above. These were completed by the departments we audited.

3.64 The Department of Health (DOH) completed the required documents in a much more highly summarized manner than the other departments. Pressures were classified by major program with only a description of a few words each. For example, the Department's submission identified Revenue Opportunities of $32.8 million. Of this amount, $15.5 million was described only as "Volume/Price/Revenue Initiatives" with no further detail. Department management indicated this estimate was submitted by the District Health Authorities and that the Department had access to the detailed calculations. The amount of detail submitted to central government was insufficient for government and the House of Assembly to use in making important resource allocation decisions.

3.65 During the period when the 2001-02 Estimates were being prepared, the health care system in Nova Scotia was being restructured. Nine District Health Authorities (DHAs) were established effective January 1, 2001 while the prior system of Regional Health Boards and Non-designated Organizations was being disbanded. This major change introduced new complexities to the budget preparation process at the Department of Health. For example, not all information systems, including financial systems, reflected the new structure. Concurrently with their budgeting responsibilities, financial staff were dealing with important issues related to restructuring and allocation of assets, liabilities and budgets among the new entities. These changes suggest that the 2001-02 budget preparation process was not typical for the Department of Health.

3.66 Central government recognized the shortcomings in the information DOH submitted and believed that the Department of Health's human resources needed to be supplemented in order to obtain the necessary information in the required time frame. The Province hired three consultants, all of whom had previous experience with DOH, to complete a joint review of the Department's budget process with the goal of suggesting improvements for future years. The consultants' major comments and recommendations are summarized below.

- DOH demonstrated to the consultants that the department had developed a clear vision and direction for the health system.
- The consultants believed that information systems for certain major programs, such as services provided under the home care program and financial and operational performance of long-term care facilities, were deficient.
- The consultants also noted deficiencies relating to information about the acute care, mental health and other programs offered by the DHAs and attribute this to a move away from line-by-line budgeting to 'global funding' in the early 1990's.
- The Department of Health should expand its planning and forecasting processes to include multi-year projections to coincide with the time frame for many of its strategic initiatives.
- Central government should provide the Department of Health with more opportunities to explain its budget, fiscal options, and policy implications.

3.67 Department of Health management was aware of these deficiencies and has been working to correct them. There were initiatives in progress to improve available information in various health sectors.

3.68 *Assumptions* - The key assumptions underlying a budget should be known to the users of budget information. Departments should define certain basic assumptions regarding expectations for the upcoming year. The assumptions should be reasonable and supportable - obtained from past performance or from predictions of future economic conditions. The quality of the budget of government and its departments is largely dependent on the completeness and reasonableness of the

assumptions. These assumptions should be communicated to decision makers so that they can understand the reasonableness of the amounts presented to them.

3.69 To be reasonable, assumptions need to be consistent with the business plans of the departments and reflect the expected economic effects of anticipated strategies, programs and actions, including those being planned in response to expected economic conditions. To be supportable, assumptions need to be based on the past performance of the departments, studies or other sources that provide objective corroboration of the assumptions used. The process used to develop assumptions should be based on relevant information that is reasonably available at the time the budget is prepared.

3.70 There are two types of assumptions which are relevant to the Estimates process. The first are assumptions related to government-wide factors such as population growth, income levels, Gross Domestic Product, and costs of major inputs such as fuel and wages. The second are department and program-specific assumptions related to costs of inputs and service levels. For example, a relevant assumption in the provision of public education would be pupil/teacher ratios.

3.71 Departments were not required to document program or other assumptions in budget submissions to the Department of Finance. Based on the initial review of departmental budget submissions, Finance requested additional information or investigation of certain large expenditure items.

3.72 We found, through our work in the departments, that assumptions were generally not well documented. Department management indicated, in several cases, that assumptions were discussed internally, and discussed with the Department of Finance as part of the central review process.

3.73 The assumptions accepted and approved by central government were not always clear. For example, the amount of funding approved for the Department of Health's Home Care program was apparently based on the assumption that light housekeeping would be eliminated for the 2001-02 fiscal year - a cost reduction of $3.5 million. As at November 2001, light housekeeping had not been eliminated and Health seemed unclear about whether the Department had actually been directed by government to eliminate the program. Central government should be providing formal, written direction to the departments regarding assumptions which underlie the approved funding, and specific approvals to undertake certain initiatives. Formal approval would also enable central government to better monitor whether approved initiatives had been undertaken by the departments.

3.74 There may be options available to reduce costs, such as changes to the level of services provided. These options are often raised during the year when a forecast shows that expenditures are likely to exceed budget. A preferable approach would be to raise these options for discussion and decision during the budget preparation process.

Central Challenge and Review

3.75 Finance and Treasury and Policy Board staff were assigned as lead for the central government review and challenge of departmental budget submissions. Those invited from departments included financial, operations, policy and communications staff. The process was iterative. Decisions regarding departmental budget pressures and risks were made as part of the individual departmental review process. Discussions with departmental and central government staff resulted in agreed upon pressures going forward for consideration by Executive Council.

3.76 There is documentation to support certain processes and decisions by central government. However, there is room for improvement in the documentation related to the decisions made as part of the review of individual departmental targets and challenges identified. We understand many of

these decisions result from a consultative process with departments. We have also been told that adjustments to initial targets may have resulted from discussions between and among senior management of various departments.

3.77 We acknowledge that documentation requirements or standards for business planning and budgeting are not as well defined or generally accepted as those for financial statement accounting. That notwithstanding, we believe it is imperative that government - centrally and for specific entities - has sufficient, appropriate support for the due process and due diligence associated with the annual planning and budgeting activities and resource allocation decisions. Consideration should be given to establishing a documentation standard with appropriate guidance for the annual business planning and budgeting activities. This will become increasingly relevant once the required reporting on outcomes becomes an integral consideration in government's accountability to the House. That is, there needs to be sufficient, appropriate evidence to support the contents of reports and representations, and for the control processes used to prepare them.

3.78 Central government did not initially request or always receive supporting information documenting the nature or extent of the changes to existing programs and levels of services which were factored into budget submissions by departments in order to meet the targets provided to them. Central government needs to ensure that departments and agencies prepare and retain information or support for their plans and budget submissions to satisfy the needs of central government and the House as those entities discharge responsibilities related to resource allocation.

3.79 Budget-related presentations were made to Executive Council at various times by Finance and selected other departments during the 2001-02 budget process. There are differing views across government as to how much of Executive Council's time should be devoted to receiving presentations on the budgets of line departments. The allotted time should be representative of the program complexities and relationship of departmental funding to total government funding.

3.80 Presentations to Executive Council included key pressures and risks identified by each department, and communications considerations resulting from decisions or recommendations of central government staff. As the Departments of Education and Health were experiencing the more significant cost pressures, they were required to make separate formal presentations to Executive Council. Executive Council decisions resulting from presentations were then conveyed back to departments through revised target letters.

3.81 We reviewed the documentation provided to central government by departments to support budget submissions. For the most part, the information provided met the requirements laid out by Finance and TPB. Central government management staff indicated they were in regular contact with the management of those departments where additional information or explanations were required. Requests for additional information and the related issues were not always documented.

3.82 We were informed that the central review and challenge process focused on the bottom line target for most departments. Finance and TPB management and staff indicated that this approach encourages departments to assume ownership of their respective budgets. Central government believes this also places the onus on departments to explain variances as the budget year unfolds. The review and challenge of pressures presented by the Departments of Health and Education were more detailed, including reviews of certain specific programs.

Role of Operational Plans

3.83 When cost pressures are not funded, it is important for management to have an operational plan in place including approved strategies for meeting the budget target. We found that, throughout government, managers with budgetary responsibilities are expected to ensure they meet the financial

targets contained in the Estimates. Management indicated that there are not always specific operational plans to address situations where the target is less than the required amount, therefore there is a potential for 'gaps' between existing expenditure levels and budgetary targets. If there are no operational plans to address such gaps, then there is more risk that expenditures will exceed approved budgets.

3.84 We recommend that government require and approve operational plans to meet budget targets. This would help to ensure that a strategy to meet the target is developed, and that initiatives to achieve targets are specifically reviewed by Department and/or central government senior management. Without approved operational plans, there is greater risk that budgetary targets will not be met for certain programs.

3.85 The preparation and approval of operational plans is especially important in a *target-driven* budgeting system like the Nova Scotia one. Although Nova Scotia has a comprehensive business planning process in place, the plans relate to the overall department and often include little detail on specific programs. The need for enhanced, annual operational plans is especially acute at the program level.

3.86 Department management should ensure operational planning is linked to the budget. Operational plans should be revisited during the year, based on forecasts prepared during the monthly monitoring process.

Timeliness

3.87 The Minister of Finance's March 29, 2001 Budget Address was the first time in recent years that a Nova Scotia government's budget was presented to the House prior to the start of the fiscal year to which it applied. The last time this occurred was March 23, 1984. The Appropriations Act, 2001 passed Third Reading in the House on April 20, 2001. Further, March 27, 1975 was the last time an annual Appropriations Act (which establishes the spending authority limits for the expenditure/expense budget) received Royal Assent prior to the start of the fiscal year to which it applied. See Exhibit 3.2 on page 68 for historical information on the timing of the Province's budgets.

3.88 Government should strive to ensure annual plans and budgets are finalized and approved prior to the start of the fiscal year to which they apply. The same goal should apply to all government GSOs and GBEs. However, many GSOs (e.g., Regional School Boards, District Health Authorities) cannot complete annual plans or budgets until government funding levels are confirmed. Accordingly, government's plans and budget need to be available to the House for debate earlier than has been the norm.

3.89 We acknowledge that one of the significant considerations in finalizing the government's annual budget is the impact of the Federal government's budget, which is often not available until February. Further, Finance usually receives updates of economic and other relevant information from Federal government agencies (e.g., Statistics Canada) in January or February.

Estimate of Revenue

3.90 Under the mandate of Section 9 of the Auditor General Act, the Office of the Auditor General annually reviews for reasonableness the government's economic assumptions used in the preparation of its revenue estimates. This mandate (initially included in the Provincial Finance Act) was put in place in the fall of 1993, and first exercised in the spring of 1994 on the government's 1994-95 revenue estimates. It is unique in Canada.

3.91 The Auditor General's review and report on the revenue estimates does not encompass the estimates of expenditures, sinking fund earnings or recoveries, user fees or other income netted against expenditures for appropriation purposes. See Exhibit 2.4 on page 27 of this Report for the report on the 2001-02 revenue estimates. In addition, paragraphs 2.16 through 2.19, starting on page 17 of Chapter 2 of this Report, provide additional information on the mandate and reporting.

3.92 The government's estimated revenues and related economic assumptions are supported by a variety of formal and less formal systems and models. The assumptions and risks in determining the estimated revenues are well documented. There is a specific review and challenge process within Finance prior to review by Executive Council. Supporting information on the assumptions and revenue estimates is presented in the Budget Address documents.

3.93 Exhibit 3.3 on page 69 shows a multi-year comparison of total estimated versus actual revenue. Based on this analysis, one should not conclude that government has tended to be too cautious in setting economic assumptions or revenue estimates in recent years. The supporting information and rationale provided to us during the annual review have supported our conclusions on the reasonableness of the assumptions used and the revenue estimates. In this regard, the uncertainties associated with larger revenue streams over which the government has limited direct influence must be acknowledged.

Debt Service Costs and Other Treasury Items

3.94 Debt servicing costs (DSC) were estimated at $1.043 billion, or 19.9%, of the 2002 budget. The most significant portion of DSC is interest on outstanding long-term debt. This was estimated to be $966.0 million. Other components of the DSC include non-cash amounts such as interest calculated on the net outstanding pension and other post-retirement obligations. The estimate included in the 2001-02 budget for this amount was $26.0 million. An analysis of total debt servicing costs is provided on pages A27 and A54 of the Budget Address. Debt servicing costs are offset by certain amounts, the most significant of which are earnings on public debt retirement funds and sinking funds.

3.95 The Province's borrowing program was authorized at $1.5 billion for the 2001-02 fiscal year. This appropriation anticipates borrowing to replace debt maturing during the year, or which may be called or redeemed.

3.96 The borrowing program also provides for new borrowing. New borrowing is required to finance the budgeted deficit, to purchase capital assets, and to provide for capital advances made through the government's lending agencies.

3.97 We are aware that any unused portion of the borrowing authority may be carried forward to subsequent years until utilized. In order to improve control, borrowing authorities should have a defined term and any unused portion of the borrowing authority should be included in the information provided to the House of Assembly when additional borrowing authority is requested.

3.98 We noted the following with respect to the planning and budgeting of debt servicing costs.

- Extensive supporting information and models are used to determine borrowing requirements and debt servicing costs. These models are maintained at the staff level but are subject to review by senior management during the year. The models are reconciled to the accounting records on an annual basis at year end. Reasonableness tests are performed during the year to ensure variations between months are explained.

- The Province's accounting policies related to debt are incorporated into the models. For example, foreign exchange translation gains and losses are amortized over the remaining term of the related debt. This calculation has been built into the models.

- Economic assumptions used to prepare the estimate for debt servicing costs are consistent with those used in other areas of the budget process.

- There is considerable information on debt management, including debt servicing costs, in the Budget Address or released with it. This information is clearly presented, and includes a sensitivity analysis indicating the impact of changes in certain assumptions on total debt servicing costs. We suggest that the date of these assumptions be noted in the sensitivity analysis.

  In addition, we noted that formal documents released along with the Budget Address include information on the government's plans and budget with respect to debt-related treasury functions. The information and analysis provided appear adequate to assess these functions and to serve as the basis for relevant enquiries.

- The Minister of Finance is responsible for all non-debt related treasury elements such as investment income, pension costs, and long-term financial obligations or commitments. Executive Council does not receive specific information on these elements during the budget process. We recommend that summary information supporting these amounts be provided to Executive Council and included in information provided to the House.

Restructuring Costs

3.99 Total budgeted net program expenses for 2001-02 were allocated to departments except for $53.6 million which was described as restructuring costs. According to budget documents, this amount includes estimates for contract negotiations, workforce adjustment and re-engineering or business processing costs (e.g., costs associated with creating new departments, such as office renovation).

3.100 The budget for restructuring costs is determined by senior management at the Department of Finance and Treasury and Policy Board. Although the appropriation includes the three components noted above, criteria for determining what may be considered restructuring costs have not been developed and we recommend this be done. In addition, the process for determining the restructuring costs budget should be documented.

3.101 Restructuring costs in total are larger than the appropriation for many departments. The House of Assembly does not receive sufficient, appropriate information on the components of restructuring costs to support effective review, debate and approval by MLAs. Further, certain costs included in the restructuring costs appropriation (e.g., compensation adjustments) represent expenses of individual departments. As a result, the budgeted costs presented for certain departments may be understated.

3.102 Finding an effective and practical solution to this issue, that also provides appropriate protection to the public purse, is a significant challenge.

3.103 During the course of this audit, we did not have full unencumbered access to the information supporting the public service contract negotiation portion of the 2001-02 restructuring costs budget. Management was not willing to disclose this information to us as these negotiations were ongoing. In this regard, Finance previously obtained a legal assessment from the Department of Justice on the issue of restricting access to such budget-supporting information (see Exhibit 3.4 on page 70).

3.104 In such circumstances, the difficulty of balancing the need to "protect" the government's (as an employer's) negotiating position with the need for transparency becomes apparent.

Relationship with Funded Organizations

3.105 The accountability for Government Business Enterprises and Government Service Organizations lies with the Ministers responsible.

3.106 There are various ways of funding GSOs (other than the departments) and other entities which receive funding from government. For example, universities are funded by a formula developed in 1998 based on the audited average enrollments from 1994-95 to 1996-97. School Boards are allocated funds based on a number of different formulas. School Boards participate in the determination of the allocation through the Education Funding Committee, and the approved funding is not targeted or restricted to particular line items but can be allocated by the Boards. Funding to the District Health Authorities is not based on a formula, but rather on DHA business plans, targeted funding, efficiency information in the Clinical Services Master Plan, and historical negotiations. DHA funding is generally portable (i.e., transferable) between programs and capital, but there are some non-portable program budgets.

3.107 The Department of Community Services funds family and children's services agencies (children's aid societies) which provide child welfare services in various areas of the Province. Grants provided to these agencies consist of two components - an operating grant to fund the administrative costs of agencies, and reimbursement of actual costs incurred in providing child welfare services. Salary and administrative costs are funded based upon budgets submitted by the agencies, and child welfare services are funded based upon the actual costs incurred.

3.108 We expected that departments would provide written guidelines and instructions to agencies and transfer payment recipients to use in preparing budgets, including common assumptions to be used. These would help to ensure budgets are consistently prepared and that potential funding issues are identified. This was generally not the case. Instructions from departments usually included very high level directions such as *produce a balanced budget* or *assume existing service levels*. All of these entities have their own planning and budgeting processes and may use their own assumptions and parameters in developing budgets. Government departments provide these entities with deadlines for submitting final business plans and budgets, but no other information is provided concerning the assumptions or parameters that should be integrated into budget submissions to be consistent with core government and we recommend that this be done.

3.109 The Minister responsible included revenue and expenditure for the GSOs for which he/she is responsible through the particular department's business planning and budget processes. Other than departments, Executive Council did not allocate time to individual GSOs or GBEs. For GBEs, Finance reviewed revenue assumptions and budgets, which were reflected in revenue estimates provided to and approved by Executive Council.

3.110 Finance and TPB received budget and business plan submissions via the Ministers responsible for government business enterprises and government service organizations. This information was accepted without detailed review by Finance and TPB. The assumptions used by GBEs and GSOs were not submitted to central government or centrally reviewed.

3.111 Through other audit or review work over the past year we have noted instances where entities had budgeted for compensation increases which were inconsistent with the plans of government.

3.112 Agencies and transfer payment recipients were generally notified of tentative budget targets prior to the beginning of the fiscal year, but final notification of approved funding was not received, in some cases, until June 2001 - part way through the fiscal year.

Additional Appropriations

3.113 When regular overspending occurs, the reliability of the amounts budgeted in the Estimates should be questioned. In the Nova Scotia government, overexpenditure of appropriations requires Executive Council approval in the form of an additional appropriation under Section 28 of the Provincial Finance Act.

3.114 In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts. Chapter 2 of this Report includes Exhibit 2.8 (see page 31) which provides a list of all of the PAC Sub-committee recommendations as well as a summary of the Office of the Auditor General's understanding of the status of action taken or planned. Not all of the recommendations have been fully implemented.

3.115 That report, under the heading 'Estimates and Budgeting', included the following recommendation.

> *Additional appropriations and special warrants need to be reviewed by the House of Assembly on a more timely and effective basis. Where a department or agency has been allocated an additional appropriation the appropriation should be tabled in the House of Assembly or if the House is not sitting it shall be deemed tabled with the clerk of the House. The amount of the appropriation must also be included.*

3.116 Additional appropriations have been required every year in recent times, and additional spending authority has not been put in place on a timely basis, as statutory requirements appear to require. See Chapter 15 of this Report for more information on additional appropriations for fiscal 2000-01. Exhibit 3.6 on page 71 provides information on the total additional appropriations required by departments in the past five fiscal years. However, it should be noted that the totals for the last three fiscal years include the impact of accounting policy changes associated with moving to generally accepted accounting principles for financial statement reporting purposes.

Forecasting and Monitoring

3.117 Quarterly financial reporting is required as per Section 8B of the Provincial Finance Act. Staff, centrally and at departments, prepare monthly financial reports and forecasts, and provide explanations for significant variances. We are not aware of the existence of formal criteria to identify when a variance is to be considered significant. Some departments have developed internal procedures concerning monthly financial reporting.

3.118 Treasury and Policy Board now requires departments to provide detailed explanations for expense variances, but it had not identified the criteria to be used to identify the variances to be explained nor had it specified the action departments are to take if their overall budget is forecasted to be overspent. We suggest that expanded and enhanced guidance on monthly and quarterly forecasting requirements be considered.

3.119 Departments inform Treasury and Policy Board of the status of their budget targets through the submission of monthly forecasts. Departmental staff were informed that a formal request for an additional appropriation should only be made at the end of the fiscal year, when the final expenditures of the Department have been determined. In our view, incurring expenditures before the necessary additional spending authority is in place is contrary to the Provincial Finance Act.

CONCLUDING REMARKS

3.120 Annual business planning and budgeting by government provides a fundamental cornerstone for control over the use or stewardship of public money and property. Once debated and approved, the annual Appropriations Act (supported by the Estimates and other planning and budget information tabled) provides the foundation upon which the government can be held to account.

3.121 Preparation of the annual Estimates is arguably one of the most important functions of government administration, and approval of the Estimates is a key governance responsibility of the House of Assembly. The approved Estimates or annual fiscal plan provide a framework for government to set out its financial and program priorities for the upcoming year. The Estimates also serve as a tool for the House to hold the government and managers accountable for achievement of planned results. Appropriate fiscal planning ensures that services funded and/or provided by government are sustainable for the future.

3.122 Government's business planning and budgeting processes need effective central leadership, with a clear definition of roles, responsibilities and authorities. Central government requires strong support, commitment and participation by the management of all departments, agencies and other organizations within the Provincial public sector.

3.123 We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. We made recommendations for improvements to certain aspects of the process.

3.124 The House of Assembly, to fulfill its responsibility for governance of the Province, needs good information on which to base its decisions. This information should include appropriate disclosure of the assumptions underlying budget requests, and we have recommended additional disclosures in this area. There is also a need to better incorporate operational planning and performance information into the budget process.

3.125 Achievement of fiscal targets depends on appropriate monitoring of planned and actual results which should begin early in the year. The ability to achieve this goal depends on timeliness of the House of Assembly's approval of the Estimates which took place earlier in 2001 than in previous years. Although there are practical difficulties associated with finalizing approval of the Estimates prior to the beginning of the fiscal year, we believe that this should be a goal for government.

3.126 It is imperative that readers of the business plans and budget information be able to clearly identify significant changes or adjustments that result in the plans and budget being presented or prepared on a basis different than prior years. Government has an obligation to ensure sufficient appropriate supporting information is available to MLAs, as a matter of course, to support the substance of budget debate in the House.

Exhibit 3.1

EXTRACTS FROM PROVINCIAL FINANCE ACT

7A (1) The Minister shall examine, advise upon and compile the annual estimates of prospective revenues and expenditures.

(2) The estimates referred to in subsection (1) shall contain

(a) the proposed supply votes that are to be voted on by the House of Assembly; and

(b) any other amounts permitted or required to be paid out of the Consolidated Fund pursuant to this or any other Act that are not required to be voted on by the House of Assembly.

(3) The estimates referred to in subsection (1) shall be prepared under the direction of the Deputy Minister. 1994, c.29, s.3.

7B (1) The Minister has responsibility for the financial management of the Consolidated Fund and related activities including

(a) establishment of expenditure targets and borrowing requirements as deemed necessary for the Province's financial planning;

(b) monitoring of departmental appropriations, expenditures, commitments and prospective expenditures and revenues of departments throughout the fiscal year to ascertain whether departments are properly managing and accounting for Consolidated Fund transactions;

(c) establishment of financial plans, procedures and policies for use in financial administration by departments;

(d) monitoring of financial management systems of departments to ensure they are consistent with government financial-management processes;

(e) development and implementation of financial management systems for departments, where necessary; and

(f) investigation of any matter relating to the receipt and disbursement of public money by departments.

(4) The Minister shall determine accountability rules and establish financial performance measurements that shall be reported upon by the departments as deemed necessary by the Minister and used to assess the on-going financial management of departments. 1994, c. 29, s. 3.

8B (1) The Minister shall submit to the House of Assembly

(a) quarterly financial reports on the state of the public finances before the end of the next quarter; and

(b) such other financial or economic reports as the Minister determines.

54 *(5) Within twenty days after the commencement of every session of the House of Assembly, the Minister shall lay before the House a report setting out particulars of all acts done by him under the authority of this Section since the date of his last report under this subsection. R.S., C. 365, s. 54; 1994, c.29, s. 18.*

59D *(1) Subject to subsection (2), where a department proposes to implement a program or service that the department has not provided in a previous year or for which no appropriation has been made in a previous year, the department shall not implement the program or service unless the department is able to implement the program or service from the total of the funds appropriated for the department for the fiscal year in which the program or service is to be implemented.*

(2) The Governor in Council may approve the implementation of the program or service referred to in subsection (1) where

(a) the program or service can be provided within the limits of the total appropriations for the Government for the fiscal year in which the program or service is to be implemented; or

(b) the program or service is required as a result of a natural disaster or other disaster as provided by this Act.

73 *Commencing April 1, 1997, a crown corporation shall annually*

(a) submit to the House of Assembly for approval during consideration of the Estimates its business plan and any proposed public financing; and

(b) table in the House of Assembly audited financial statements for the preceding fiscal year. 1996, c.5, s. 23.

74 *In this Act,*

(a) "deficit" means the amount in a fiscal year by which the total of

(i) net program expenses and net debt servicing costs for the fiscal year as defined in the budgetary summary of the annual Estimates of the Province for that fiscal year,

(ii) consolidation adjustments for government service organizations in that fiscal year, and

(iii) net income or losses for government business enterprises in that fiscal year, exceed ordinary revenue for the fiscal year as defined in the budgetary summary of the annual Estimates of the Province for that fiscal year;

(b) "fiscal period" means a period of four consecutive fiscal years, with the first four-year fiscal period commencing on April 1, 2000, and each successive four-year fiscal period commencing on April 1st next following the first year of the previous fiscal period;

(c) "government business enterprise" and "government service organization" means those entities listed in the Schedule to this Act and any additional entities designated pursuant to Section 80;

(d) "Minister" means the Minister of Finance;

(e) "surplus" means the amount by which revenues in a fiscal year exceed the total of

(i) net program expenses and net debt servicing costs for the fiscal year,

(ii) consolidation adjustments for government services organizations in that fiscal year, and

(iii) net income or losses for government business enterprises in that fiscal year.

75 Where an amount is expended in excess of an appropriation referred to in the Appropriations Act, the Minister responsible for expenditures made pursuant to the appropriation shall table in the House of Assembly or, if the House is not sitting, file with the Clerk of the House of Assembly a report setting out the amount of the over-spending and the reasons the expenses were required to be made.

76 In each fiscal year of the Province, commencing with the 2002-2003 fiscal year, the Minister shall not table a budget in the House of Assembly that estimates a deficit for the Province for the fiscal year to which the budget relates.

77 Where the Minister determines that a deficit has occurred, the Minister shall

(a) table, in the House of Assembly or, if the House is not sitting, file with the Clerk of the House of Assembly a report setting out the amount of the deficit and the reasons why it occurred; and

(b) introduce a resolution in the House of Assembly respecting the deficit.

78 (1) Subject to subsection (2), a deficit in a fiscal year shall be recovered no later than the end of the fiscal year next following the year in which the deficit occurred.

(2) Where a deficit occurs in a fiscal year as a result of

(a) an expenditure required in the fiscal year because of a natural or other disaster in the Province that could not have been anticipated and that affects the Province or a region of the Province in a manner that is of urgent public concern;

(b) losses associated with a sale, dissolution, closure or other restructuring of a government service organization or government business enterprise that are not anticipated to have a similar financial impact on future fiscal years; or

(c) an expense incurred with respect to debt servicing costs that exceeds the amount budgeted for debt servicing costs for the fiscal year, the deficit is not required to be recovered.

79 Notwithstanding any enactment, power or authority, a government service organization or a government business enterprise shall not exceed the net results as set out in its budget without first obtaining the written authorization of the Minister responsible for the government service organization or government business enterprise.

81 (1) The Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management specified in subsection (2).

(2) The principles of responsible fiscal management include

(a) achieving and maintaining Crown debt at prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future;

(b) achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future;

(c) managing prudently the fiscal risks facing the Crown;

(d) pursuing policies that are consistent with achieving a reasonable degree of predictability about the level and stability of tax rates, programs and services for future years; and

(e) adopting and implementing a fiscal decision-making system that is rational, fair, efficient, credible, transparent and accountable.

82 *(1) The Minister shall prepare a consolidated fiscal plan for the Government for each fiscal period.*

(2) The Minister shall table a consolidated fiscal plan at the time the Minister tables the estimates for a fiscal year in the House of Assembly.

(3) A consolidated fiscal plan shall include

(a) fiscal projections for the four-year period referred to in the consolidated fiscal plan;

(b) the major economic assumptions the Minister made in preparing the plan, including the effect changes in the assumptions may have on the finances of the Government in the fiscal period to which the plan relates;

(c) a summary of the Government's business plan for the first year of the fiscal period, as well as such portions of the business plans for the first year of the fiscal period of a department, government business enterprise or government service organization as the Minister considers appropriate; and

(d) such other information as the Minister considers appropriate.

83 *(1) The Minister shall prepare a report for each fiscal year in a form and at the time determined by the Minister.*

(2) A report prepared pursuant to subsection (1) shall include

(a) information that shows outcomes against the business plan information for that fiscal year; and

(b) any other information the Minister considers appropriate.

(3) Reports prepared pursuant to subsection (1) shall be submitted to the House of Assembly not later than December 31st next following the end of the fiscal year reported on and, if the House is not sitting, the Minister shall file the report with the Clerk of the House.

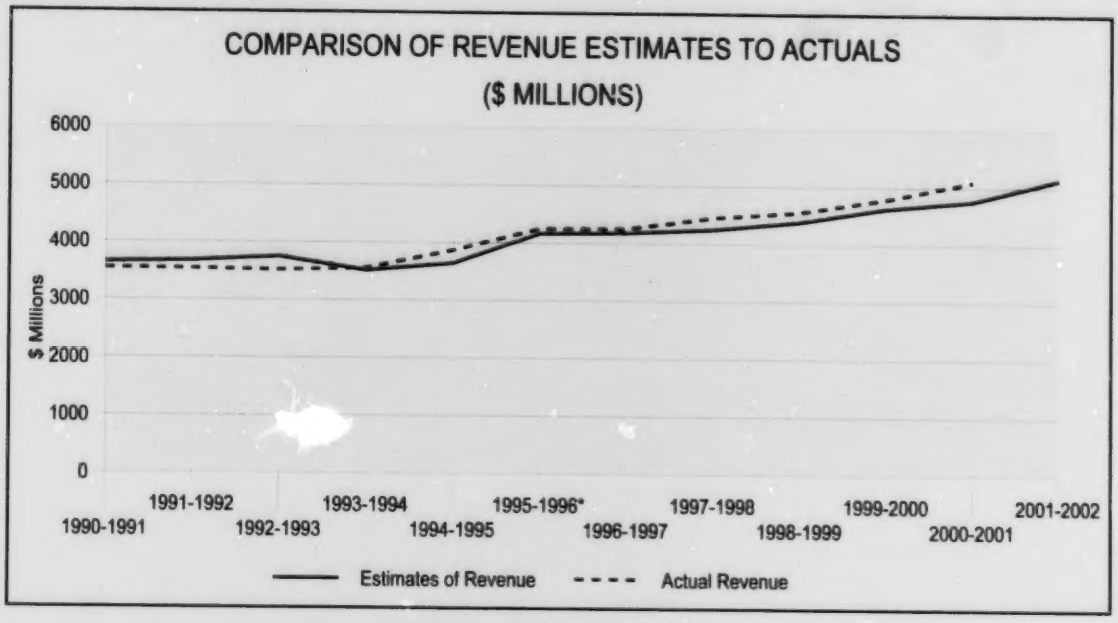
Exhibit 3.2

PROVINCE OF NOVA SCOTIA
CHRONOLOGY OF BUDGET DATES

Fiscal Period	Fiscal Year End	Date of Budget Address	Date of Royal Assent	Date of General Election
2001-2002 (Note 1)	March 31, 2002	March 29, 2001	June 1, 2001	
2000-2001	March 31, 2001	April 11, 2000	June 8, 2000	
1999-2000	March 31, 2000	October 14, 1999	November 23, 1999	
1999-2000 (Note 2)	March 31, 2000	June 1, 1999	N/A	July 27, 1999
1998-1999	March 31, 1999	June 4, 1998	June 29, 1998	March 24, 1998
1997-1998	March 31, 1998	April 17, 1997	May 9, 1997	
1996-1997	March 31, 1997	April 25, 1996	May 17, 1996	
1995-1996	March 31, 1996	April 11, 1995	May 19, 1995	
1994-1995	March 31, 1995	May 2, 1994	June 30, 1994	
1993-1994	March 31, 1994	September 30, 1993	November 25, 1993	May 25, 1993
1992-1993	March 31, 1993	April 24, 1992	June 30, 1992	
1991-1992	March 31, 1992	May 14, 1991	June 13, 1991	
1990-1991	March 31, 1991	April 27, 1990	June 19, 1990	
1989-1990	March 31, 1990	May 5, 1989	June 15, 1989	
1988-1989	March 31, 1989	April 15, 1988	May 25, 1988	September 6, 1988
1987-1988	March 31, 1988	April 10, 1987	May 29, 1987	
1986-1987	March 31, 1987	April 18, 1986	May 26, 1986	
1985-1986	March 31, 1986	April 19, 1985	May 17, 1985	
1984-1985	March 31, 1985	March 23, 1984	June 11, 1984	November 6, 1984
1983-1984	March 31, 1984	April 18, 1983	June 1, 1983	
1982-1983	March 31, 1983	April 30, 1982	June 26, 1982	
1981-1982	March 31, 1982	April 10, 1981	June 24, 1981	October 6, 1981
1980-1981	March 31, 1981	April 2, 1980	June 5, 1980	
1979-1980	March 31, 1980	April 6, 1979	May 15, 1979	
1978-1979	March 31, 1979	March 3, 1978	May 5, 1978	September 19, 1978
1977-1978	March 31, 1978	March 29, 1977	May 19, 1977	
1976-1977	March 31, 1977	March 19, 1976	May 20, 1976	
1975-1976	March 31, 1976	March 4, 1975	March 27, 1975	
1974-1975	March 31, 1975	June 14, 1974	June 28, 1974	April 2, 1974

Note 1 - Appropriations Act, 2001 - House voted on and passed April 20, 2001
Note 2 - Budget defeated June 17, 1999

Exhibit 3.3



**Federal CHST program implemented*

Exhibit 3.4

FREEDOM OF INFORMATION AND PROTECTION OF PRIVACY ACT

Do Statutory Provisions Justify Withholding Budget Information?

(Extracted from April 15, 1997 Memorandum - Justice Deputy to Finance Deputy)

You have asked me whether statutory provisions justify withholding budget information such as information which could benefit unions during collective bargaining (to the detriment of the Province).

Subsection 17(1) of the Freedom of Information and Protection of Privacy Act provides, in part,:

> *"The head of a public body may refuse to disclose ... information the disclosure of which could be reasonably expected to harm the financial ... interests of ... the Government of Nova Scotia ...".*

Clause 17(1)(e) contains a specific right to refuse "information about negotiations carried on by or for a public body or the Government of Nova Scotia". I believe information respecting money allocated for the purpose of salary increases is covered by both the general prohibition and the specific one.

The Government may determine whether the release of the information could or would not reasonably be expected to harm the financial interests of the Government. That will depend upon the collective bargaining strategy.

It follows that, if asked about details respecting the estimates which would disclose money available for salary increases yet to be negotiated, the Minister of Finance may respond:

> *"Release of this information could reasonably be expected to harm the financial interests of the Government of Nova Scotia during the collective bargaining process and therefore the information will not be disclosed."*

Exhibit 3.5

DEPARTMENTAL BUDGET REQUESTS AND FINAL ESTIMATES
2001-02
($ thousands)

Departments	Community Services	Education (Including University Assistance)	Health
Base Budget, 2001-02	$ 575,989	$ 1,060,064	$ 1,686,140
Funding for Program Pressures	21,600		
Other Adjustments	23,636	11,165	13,860
Revised Base Budget	**621,225**	**1,071,229**	**1,700,000**
Funding for Program Pressures	1,500	6,400	126,884
Other Adjustments	3,783	12,040	(7,853)
Estimate, 2001-02	**$ 626,508**	**$ 1,089,669**	**$ 1,819,031**
Department Initial Request	$ 635,225	$ 1,117,855	$ 1,988,013

Exhibit 3.6

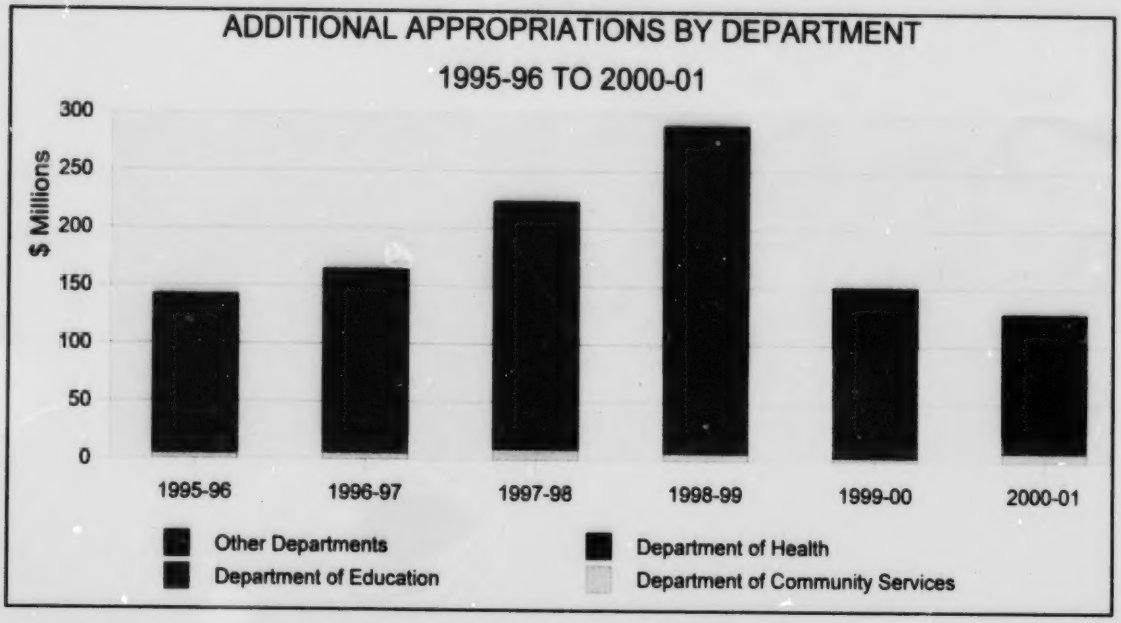
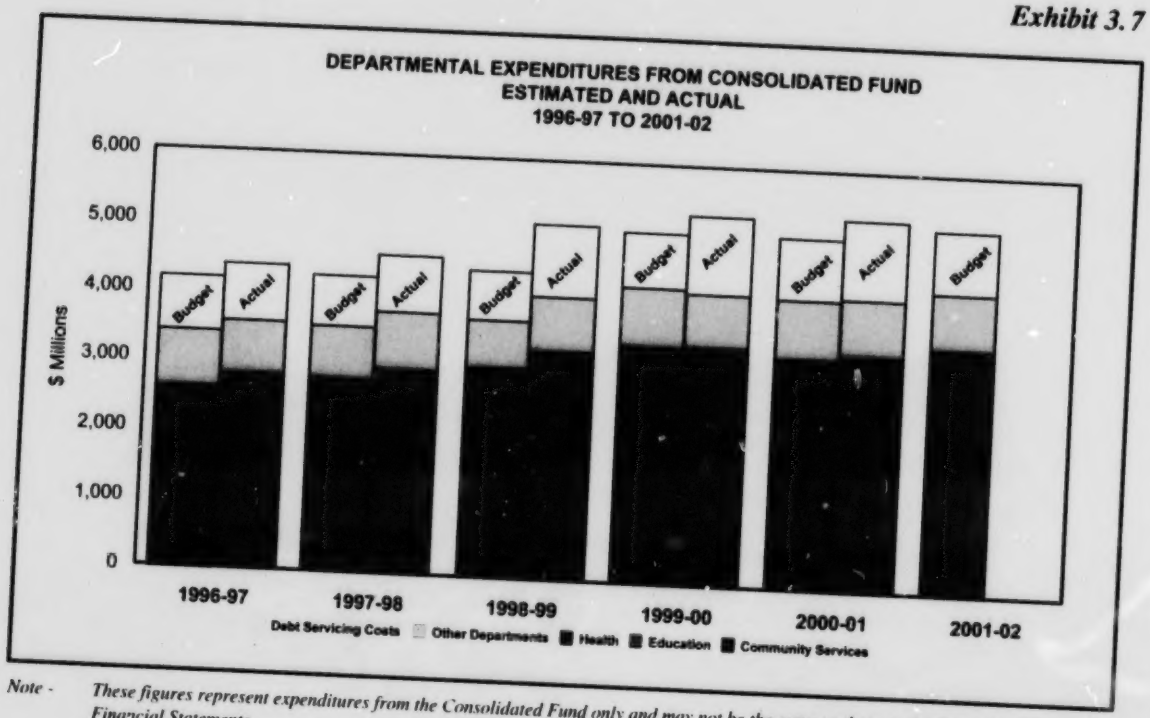


Exhibit 3.7



Note - These figures represent expenditures from the Consolidated Fund only and may not be the same as those in the Consolidated Summary Financial Statements.

4.

FINANCIAL PLANNING AND BUDGETING - CAPITAL EXPENDITURES

BACKGROUND

4.1 *New process* - The Province changed its accounting policy for recording the purchase and use of tangible capital assets (Exhibit 4.1) in 1999-2000 to comply with generally accepted accounting principles. This resulted in capital expenditures being recorded as assets on the Province's consolidated statement of financial position, and an amount for amortization based upon the useful life of the asset being included in the consolidated statement of operations. Prior to this change in accounting policy, capital expenditures were wholly expensed during the year in which they were incurred. This represented a dramatic shift in accounting for capital assets and required government departments and agencies to develop an inventory and values for all capital assets. One year later, this shift brought about a change in the way the government plans and budgets for expenditures on capital assets.

4.2 In October 2000, a discussion paper entitled *Prioritization of Tangible Capital Assets* was released by the Department of Finance. The purpose of the paper was to establish a process which government departments would follow in obtaining funding for tangible capital assets (TCAs) through the annual Estimates process.

4.3 The new planning and budgeting process included the establishment of a Tangible Capital Asset Prioritization Committee comprised of senior management staff from various departments. Total funding for TCAs is established by Executive Council each year. Departments submit funding requests to the Committee. The Committee is responsible for the review and recommendation of departmental requests for final approval by Executive Council. Recommended total capital spending cannot be greater than the allocation approved by Executive Council. The Committee ensures departments follow established formats and time lines for requesting funding, and that requests are properly categorized in accordance with process guidelines. After funding decisions are finalized, the Committee calculates amortization costs applicable to newly approved and existing TCAs for inclusion in the Estimates.

4.4 Funding for hospital construction and renovations is not reviewed by the Committee. Hospital capital projects are funded by way of grants from the Department of Health to District Health Authorities. Grants are treated as operating expenditures of the Department of Health and, as such, are reviewed by others during deliberations on the Department's operating budget.

4.5 *Process implementation* - The discussion paper was used to communicate and implement the new process for planning and budgeting for capital assets. Drafts of the discussion paper were sent for comment on several occasions to the members of the Senior Financial Executive Forum who are the senior financial managers responsible for accounting for departmental spending. In addition, officials of Treasury and Policy Board and the Department of Finance held meetings with senior staff of the major departments to explain the new accounting policy and budgeting process. Interpretations were provided in response to questions asked, and various amendments and guidelines were issued to respond to concerns expressed.

4.6 To assist in ensuring the new process is properly followed, the discussion paper outlines various knowledge requirements for members of the Tangible Capital Asset Prioritization

Committee. These include: knowledge of policy issues and the business planning process; knowledge of finance and accounting; and experience and operational knowledge related to public works (e.g., construction and repair of buildings and roads). The discussion paper also recommends representation from central agencies such as Treasury and Policy Board and the Department of Finance, and that members be fair and unbiased and make decisions from a corporate perspective. As a further measure to ensure correct implementation of the new process, the Provincial Controller was appointed Chair of the Committee.

4.7 Provincial accounting policies set cost thresholds (Exhibit 4.2 on page 79), below which an expenditure would be considered an operating expenditure, not a capital expenditure. Requests for capital funding which meet or exceed the thresholds are to be submitted to the Committee and are to contain specific information to enable the Committee to evaluate submissions using predefined criteria. No presentations are to be made to the Committee; rather, decisions to fund a project are to be based upon the information submitted. We were told that if submissions are lacking information or are otherwise unclear, additional information or clarification of the submission will be sought. The Committee reviews each proposal and ranks them as either critical, important, desirable, or not recommended.

4.8 *2001-02 funding decisions* - Based upon requests received for the 2001-02 fiscal year (including projects approved by Executive Council prior to this new process being established), and on the high priority classification assigned to so many of them, the Committee concluded that insufficient funding was available to address all critical needs. The Committee requested Executive Council to approve additional TCA funding. Approximately $10 million in additional funds were approved, bringing total funding for new TCAs in the 2001-02 Estimates to approximately $187 million. A little over $102 million was provided for amortization (Exhibit 4.3 on page 80). The amounts approved for each department were included in the 2001-02 Estimates presented to the House of Assembly for debate.

4.9 Departments are informed by letter from the Department of Finance of projects or classes of projects which will be funded. The letter states that any changes to projects must be reviewed by the Committee and approved by Executive Council. Should a project cost less than the approved funding level, departments do not have authority to spend the savings. The Committee decides, based upon project priorities, how and where the savings will be allocated. Savings will not necessarily be allocated to fund assets of the department that received the original funding. Conversely, if a project costs more than originally approved, departments are informed that the Committee may be unable to recommend the additional funds required. Departments must find alternative funding, such as reallocation of funds from other capital projects, or delay the project's completion until future years' funding is available.

4.10 *Monitoring of spending* - Once TCA requests have been approved, departments do not have the authority to divert the funding to a project that was not submitted for approval or to bolster the funds available for another approved project. A contingency amount is established to fund critical situations arising during the year that were unforeseen when initial requests for TCAs were approved. For 2001-02, this amount is $5 million and is included in the Estimates of the Department of Transportation and Public Works.

4.11 Once the House of Assembly has debated and voted on the annual Estimates, there is a monitoring process to ensure capital funds are being spent for the purposes for which they were appropriated. This responsibility has been assigned to Treasury and Policy Board. The Board reviews department spending and there is regular interaction between Board and senior departmental staff. Monthly forecasts of spending by departments also assist Board staff in monitoring capital spending against approved amounts. Explanations are obtained for variances from spending authority. If departmental capital spending exceeds approved funding, the Board may require

departments to stop a project or fund overspending from another capital project, unless Executive Council approves a recommendation from the Tangible Capital Asset Prioritization Committee for additional capital funds. However, if the project is considered critical and all other avenues of funding have been unsuccessful (including the TCA contingency fund), then the department will have to seek Executive Council approval for the spending through an additional appropriation.

RESULTS IN BRIEF

4.12 The following are our principal observations from this audit.

- The new capital asset planning and budgeting process was well communicated to the individuals required to comply with its requirements.
- Information used to make decisions on the funding of tangible capital assets was not documented in all cases examined.
- Certain departments were allocated blocks of capital funding to be spent as the department decided, which we believe to be inconsistent with the requirements or intent of the new TCA planning and budgeting process, and inconsistent with the handling of requests for capital spending from other departments.
- The process used to set amortization rates was reasonable, and the calculation of amortization costs for the 2001-02 Estimates was accurate.
- Procedures for monitoring departmental spending to ensure consistency with capital asset funding approvals appear to be reasonable.

AUDIT SCOPE

4.13 The objective of this assignment was to assess government's systems and controls for planning and budgeting for tangible capital assets. This audit was completed in October 2001 and conducted under the authority of Section 8 of the Auditor General Act. The assignment was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

PRINCIPAL FINDINGS

4.14 We found that the new capital asset planning and budgeting process was well communicated to the individuals who would have to comply with its requirements. We reviewed the membership of the Tangible Capital Asset Prioritization Committee and concluded that, based upon their position responsibilities within the various departments which they represent, the skill requirements for Committee members appear to have been met.

4.15 We selected a sample of ten capital asset funding submissions approved for the 2001-02 budget and examined them to determine if the Committee's information requirements were adhered to. We found submissions relating to school buses and health-oriented information systems did not contain all of the required information. We were informed that the Committee asked for additional information to support the requests, or were otherwise aware of the details supporting the requests, but this additional information was not documented. We recommended that all required information be submitted for future funding requests, and that requests for additional information and responses be documented and kept on file.

4.16 We also observed that the Committee does not prioritize school construction projects. School construction projects are reviewed by the School Capital Construction Committee which reports recommendations to Executive Council. A member of the Tangible Capital Asset Prioritization Committee sits on the school committee. After the school committee's report is approved by Executive Council, the approved school construction projects are presented to the TCA Prioritization Committee for inclusion in the Estimates. We recommended that the tangible capital asset prioritization process be revised to reflect the approval process for school construction projects.

4.17 The Tangible Capital Asset Prioritization Committee could not recommend all funding requests due to the magnitude of the funds required. In the case of school improvements, road construction and road rehabilitation, the Committee negotiated with departments on the level of funding to be provided and allocated a block of funding without specifying the projects to be pursued. The Committee was aware of the types of projects for which funding was needed, but it was left to the departments to decide how the funds would be spent on capital projects so that they would have the needed flexibility to deal with changing priorities, construction delays, program changes, etc. Recommending blocks of funding without specifying how it is to be spent does not appear to be consistent with the requirements or intent of the new TCA planning and budgeting process, and also is inconsistent with how requests for capital spending of other departments are handled. If this process is determined to be the best means of allocating TCA funding for such needs, the documented procedures for TCA prioritization should be updated to better describe and guide the process.

4.18 As part of its mandate, the Committee calculated the amortization costs to be included in the 2001-02 Estimates. The amortization rates were established through a review of rates used by other provinces and discussions with experts on the useful life of specific assets. We concluded that a reasonable process was used to set the rates. We also found that the rates used by the Committee in calculating amortization for the 2001-02 Estimates agreed to Provincial accounting policies. Amortization calculations were accurate and the amounts calculated agreed to amortization recorded in the Estimates.

4.19 However, there appears to be inconsistency in some of the thresholds used to determine whether or not a purchase is to be considered a tangible capital asset (Exhibit 4.2 - page 79). For example, buildings have a threshold of $250,000 while portable classrooms have a limit of $50,000, though both serve a similar purpose. Similarly, ferries and boats have a threshold of $250,000 whereas motor vehicles have a limit of only $15,000. Computer hardware has a threshold of $25,000, but computer software has a threshold of $250,000. We recommended a review of the thresholds to determine if there is benefit in such inconsistencies.

4.20 We wanted to review the Committee's work and specific decisions made in its consideration of funding submissions. However, the Committee did not document its deliberations (through minutes, for example) and thus we were unable to determine the nature of the consideration given to each funding request and the rationale for decisions made. However, we were able to determine that each request was reviewed and in certain cases rejected as not meeting the threshold amount or definition of a capital asset. We recommended that the Committee document future deliberations.

4.21 Procedures for monitoring departmental spending to ensure it is consistent with capital asset funding approvals appear to be reasonable. Adequate systems are in place to reallocate any approved funding which is not required for the projects for which funding was originally provided.

CONCLUDING REMARKS

4.22 In our opinion, the systems and controls for planning and budgeting for tangible capital assets are reasonable. The calculation of amortization costs for the 2001-02 Estimates was accurate. However, the approval process for school construction and the provision of block funding to certain departments appear to be inconsistent with the process described in government guidelines for capital asset budgeting. Also, because of a lack of documentation of certain capital asset funding requests and the deliberations of the Tangible Capital Asset Prioritization Committee, we cannot express an opinion on whether the prioritization of capital spending and the recommendation of capital spending to Executive Council were reasonable and consistent with government guidelines.

Exhibit 4.1

TANGIBLE CAPITAL ASSETS
DEFINITION

Provincial accounting policies define a tangible capital asset as:

a non-financial asset that is purchased, constructed or developed and:

- is held for use in the production or supply of goods and services, for rental to others, for administration purposes or for development, construction, maintenance or repair of other capital assets;
- requires operating and maintenance expenditures and may need to be replaced in the future;
- has a useful life extending beyond an accounting period and is intended to be used on a continuing basis; and
- is not intended for sale in the ordinary course of operations.

Tangible capital assets do not include:

- intangibles;
- land and other assets acquired by right;
- works of art and historical treasures; and
- natural resources such as forests, water and mineral resources.

Exhibit 4.2

TANGIBLE CAPITAL ASSETS
COST THRESHOLDS

Land	$ 250,000
Buildings	250,000
Schools	250,000
Portable classrooms	50,000
Leasehold improvements	250,000
Wharf	250,000
Major equipment	50,000
Ferries and boats	250,000
Computer hardware	25,000
Computer software	250,000
Customized software	250,000
Motor vehicles	15,000
Roads, bridges and highways - substructure, pavement, bridges	500,000
Roads and highways - repaving	500,000

Exhibit 4.3

TANGIBLE CAPITAL ASSETS
2001-02 ESTIMATES

	Capital Purchases	Amortization
Agriculture and Fisheries	$ 500,000	$ 103,000
Community Services	—	35,000
Economic Development	—	4,000
Education	90,558,000	35,068,000
Environment and Labour	25,000	35,000
Finance	—	2,346,000
Health	13,243,000	6,490,000
Justice	—	1,314,000
Natural Resources	400,000	410,000
Public Services	150,000	36,000
Service Nova Scotia and Municipal Relations	650,000	1,587,000
Tourism and Culture	—	23,000
Transportation and Public Works	81,434,000	54,775,000
	$ 186,960,000	$ 102,226,000

5.

FINANCIAL PLANNING AND BUDGETING - CAPITAL DISTRICT HEALTH AUTHORITY

BACKGROUND

5.1 The Health Authorities Act received Royal Assent on June 8, 2000. The Act provides for the creation of District Health Authorities (DHAs) and community health boards. Certain sections took effect January 1, 2001 and other sections became effective April 1, 2001. District Health Authorities are responsible for governing, planning, managing, delivering, monitoring, evaluating, and allocating resources to health services within their districts and for providing planning support to the community health boards. Community health boards are responsible for developing community health plans encompassing primary health care and identifying ways to improve the overall health of the community.

5.2 Section 6(3) of the Act provides for the creation of the Capital District Health Authority (CDHA). CDHA operates eight health care facilities, including the Queen Elizabeth II Health Sciences Centre, the Nova Scotia Hospital, and the Dartmouth General Hospital (see Exhibit 5.1). It also has responsibility for Drug Dependency, Home Support Central, and Public Health services. The organization employs approximately 750 physicians and 8,500 nursing, technical and other staff at 31 locations covering approximately 4.2 million square feet of space.

5.3 CDHA is governed by a single Board of Directors. The Executive Committee and the Finance and Audit Committee are two committees of the Board with particular financial responsibilities. These committees are chaired by Board members. The day-to-day operations of CDHA are administered by the Executive Management Team, consisting of the Chief Executive Officer, 10 vice-presidents and the Medical Officer of Health.

5.4 CDHA receives the majority of its funding from the Department of Health. Most of the funding is portable, that is, funds are transferable between programs and capital. However, there is some non-portable funding as well (see Exhibit 5.2). Non-portable funding is targeted for specific programs and is not transferable to other programs. Section 31 of the Act does not allow DHAs to budget for a deficit.

5.5 For the 2000-01 fiscal year, the Queen Elizabeth II Health Sciences Centre, the Nova Scotia Hospital and the (former) Central Regional Health Board were budgeted as separate entities. Actual operating expenditures for the combined organization were $484.6 million, with revenues of $468.4 million. The $16.2 million deficit was funded by the Department of Health. For the 2001-02 fiscal year, CDHA budgeted revenues and expenditures of $492.4 million, including $3.9 million for capital projects (see Exhibit 5.3 and 5.4).

5.6 Section 4(2) of the Health Authorities Act which provided for the creation of the Capital Health District includes the Izaak Walton Killam-Grace Health Centre for Children, Women and Families (IWK-Grace) as part of the Capital Health District under a separate board of directors. Due to the timing of the second proclamation of the Act, business plans of the IWK-Grace were provided separately from CDHA for 2001-02. For the 2002-03 fiscal year, a joint business plan is to be presented for both CDHA and the IWK-Grace.

RESULTS IN BRIEF

5.7 The following are the principal observations from this audit.

- The Capital District Health Authority was established in 2001. Preparation of the first budget for the new organization was a challenge for the management team and Board, especially because CDHA had been informed that its Provincial funding would not increase over the amount provided to the predecessor organizations in the prior year. Subsequently, CDHA's funding was increased by $27.2 million.

- CDHA's process for budget preparation was appropriate and the Authority submitted its budget request to the Department of Health in the required timeframe.

- Those who make decisions on budgets require information about the assumptions underlying the budget submission. The quality of the budget is largely dependent on the completeness and reasonableness of the assumptions. We recommended improvements to the documentation and communication of assumptions underlying the CDHA's budget submission.

- Senior management instructed staff to maintain expenditures at the prior year's level. However, statistical information on volumes circulated with the budget instructions indicated that service volumes were expected to increase in certain areas. There were no approved operational plans to 'close the gap' between the impact of increased activity levels and available funds. Similarly, during the budget process the Department of Health requested CDHA to make cuts of $9.6 million to its expenditures, of which $5.2 million was assigned to clinical areas. There was no approved operational plan to achieve the clinical reduction.

- CDHA has analyzed its long-term capital needs although the analysis is incomplete in some areas. The Department of Health and CDHA should work toward establishing a common perspective on those needs, and an appropriate funding strategy. CDHA's 2001-02 capital budget submission to the Department of Health, based on departmental requests, totaled $53.5 million. CDHA allocated $3.9 million of Department of Health funding to capital, and $5.3 million is anticipated from other sources such as Foundations. The balance of $44.3 million has not been funded in the current year.

AUDIT SCOPE

5.8 The objectives for this assignment were to:

- determine whether the 2001-02 budget information used by government to make decisions related to the Capital District Health Authority has quality and integrity;

- determine whether the budget preparation process was sound;

- determine whether there is an appropriate process to monitor actual versus budgeted results for 2001-02; and

- review and assess the preparation process and support for the Capital District Health Authority's 2001-02 capital request submitted to the Department of Health, and the amount of the approved capital budget.

5.9 Our objectives focused on systems and procedures to support preparation of the budget, and did not include formation of an opinion on the reasonableness of the amounts included in the budget. Consequently, we express no opinion on reasonableness of the budget, or whether assumptions are suitably supported, consistent with the plans of the government and CDHA, provide a reasonable basis for the budget, and are fairly reflected in the budget.

5.10 Our approach was based on interviews, review of documents and correspondence, and detailed testing of a sample of line items reflected in the budget.

5.11 The scope of this audit did not include the IWK-Grace Health Centre for the reasons described in paragraph 5.6.

PRINCIPAL FINDINGS

Description of the Business Planning and Budgeting Processes

5.12 *Introduction* - Business plans serve as the foundation for the budgeting process. CDHA was required to prepare a business plan for the 2001-02 fiscal year. The format and template used to prepare the business plan were provided by the Department of Health. Key information in the business plan included the mission statement, strategic directions, and projected budget.

5.13 *Establishment of objectives* - CDHA detailed the organization's values, mission, vision and strategic directions in its 2001-02 business plan. The strategic directions were outlined under the headings of Building Our Culture, Developing an Integrated Population Health System, and Supporting Integration. Senior management was responsible for developing initiatives within the three broad categories. More specific departmental objectives and individual objectives for directors were linked to these.

5.14 In some cases the linkage between the budget and business plan could be established. For example, an extra $1.0 million was budgeted for human resources development in support of the first objective. In other cases there were narrative descriptions of new initiatives and funding. In yet other cases, such as information technology and finance, integration was occurring as part of ongoing operations and was included in the budget allocation.

5.15 Since the majority of CDHA's budget is funded through the Department of Health, it is essential that CDHA's focus and direction be consistent with the Department's objectives. The Department of Health's strategic initiatives are set out in its business plan. We were informed that CDHA ensures its organizational strategies and initiatives are consistent with the Department's objectives which are included in the budget package which CDHA receives from the Department.

5.16 *Link to performance information* - Performance targets and strategies to achieve the targets should be linked to the goals and priorities set out in the business plan. Many of the initiatives from CDHA's business plan are still under development. Unless appropriate targets and outcome measures are established, it is difficult to determine progress, allocate resources and determine the adequacy of the allocation. We recommend that CDHA proceed to develop appropriate performance targets.

5.17 *Description of the budgeting process* - The budget process began in early November with the distribution of a budget package from central office to senior management, directors and managers. Senior management directed that the budget be prepared under the assumption that funding from the Department of Health would not exceed the 2000-01 level and opportunities for further savings should be identified.

5.18 The budget packages were completed by the managers, reviewed by the directors and returned to the budget office by early December for tabulation and completion of the overall budget. Over the next month, directors of all departments presented their budgets to the executive management team for review and challenge which resulted in a decrease of $5.8 million from the initial submissions.

5.19 A Department of Health communication, issued in late January 2001 to CDHA, requested preparation of a balanced budget based on funding targets provided at that time. The initial targets were essentially the forecast actuals for 2000-01. In order to achieve this target, CDHA decreased its initial expenditure budget by $37.7 million. By mid-February, the budget was approved by the executive management team and presented to the Finance and Audit Committee for approval.

5.20 In late March, the Department of Health communicated an increase in funding of $27.2 million and suggested certain clinical and administrative reductions. The budget was revised and approved by the Board on April 5, 2001. The final budget allocations were communicated to managers and directors on April 20, 2001.

5.21 *Recommendations* - Our primary recommendation for the business planning and budgeting process is that performance targets should be established.

Appropriate Governance and Management Structure - Audit Findings

5.22 *Introduction* - Budgeting is a complex process which requires input from throughout the organization on many aspects of operations such as program changes, assumptions and cost and service volume projections. This information is the basis for important decisions and needs to be accumulated, summarized and communicated to senior management, the Board and the Department of Health. A clearly defined structure of functions and processes is needed to provide overall direction in the creation of the budget and to monitor progress in its development. Responsibility, accountability and authority for the preparation of the budget should be clearly assigned.

5.23 *Roles and responsibilities* - The Chief Executive Officer reports to the Board and is part of the Executive Management Team. The terms of reference for the Executive Management Team include responsibility for planning and financial management. Day-to-day financial management of the CDHA is under the direction of the Vice-President, Administration through to the Director of Finance. Key financial management positions reporting to the Director include Manager of Budgeting, and Manager of Financial Reporting. The Finance Department has a total complement of 75 employees.

5.24 Job descriptions for all the key financial management positions include appropriate responsibilities as well as requirements for professional accounting designations. The responsibilities include planning and budgeting, monitoring and reporting, cash management, and establishment of annual goals.

5.25 *Policy framework* - The budget planning cycle, directions and policies were well documented, clear, and adequately communicated to appropriate parties. The planning cycle included the steps from start through to completion and approval. The budget package included an outline of the budget process, milestone dates, assignment of responsibilities, budget worksheets, volume statistics and activity reports.

5.26 The budget preparation plan did not address the need for separate and early development of assumptions, nor was there any direction requiring disclosure of the sensitivity of the assumptions. Decision makers and users of budget information should be aware of risks and sensitivities related to assumptions. There was no evidence of risk and sensitivity analysis being requested by or provided to senior management and the Department of Health. We recommend the plan and procedures be revised to include these items.

5.27 *Relationship with Department of Health* - The Department issued business plan and budget guidelines to the DHAs in late January 2001. The guidelines set out the timetable and format of the business plan to be submitted to the Department. The instructions also included directions to produce a balanced budget based on the initial funding targets which were provided. This level of funding required CDHA to identify $37.7 million of expenditure reduction initiatives.

5.28 CDHA followed the guidelines and submitted a draft business plan to the Department of Health on February 12, 2001. The Department reviewed the plan and initiatives internally and assessed the impact on the Department's programs. Following review with central government, additional funding of $27.2 million was provided and CDHA was requested to introduce initiatives for clinical and administrative cost reductions of $9.6 million in balancing the budget. Final funding was communicated to CDHA at the end of March 2001.

5.29 In Chapter 3, paragraph 3.66, we included the consultants' recommendation *"The Department of Health should expand its planning and forecasting processes to include multi-year projections to coincide with the timeframe for many of its strategic initiatives."* CDHA has requested multi-year funding projections from the Department to improve the planning and budgeting process.

5.30 *Recommendations* - Our primary recommendation for this area is that policies and procedures should require documentation and communication of assumptions, and a discussion of related risks and sensitivities.

Sound Financial Reporting Standards - Audit Findings

5.31 *Introduction* - Information contained in the budget should be reliable, and prepared in accordance with generally accepted accounting principles. Readers and users must be assured of the completeness, accuracy and reliability of the information being provided. In the following paragraphs, we comment on issues related to the quality of the budget document.

5.32 *Accounting principles* - The Department of Health specifically communicated the requirement for application of generally accepted accounting principles in the financial records of the District Health Authorities. CDHA's business combination plans included a review of the financial statements of the various components to ensure consistent accounting treatment for consolidation and budget purposes. During our audit of the budgeting process we did not encounter any deviations from generally accepted accounting principles.

5.33 *Assumptions* - The key assumptions underlying a budget should be known to the users of budget information. Senior management should define certain basic assumptions regarding expectations for the upcoming year. The assumptions should be reasonable and supportable - obtained from past performance or from future economic conditions. The quality of the budget is largely dependent on the completeness and reasonableness of the assumptions. These assumptions should be communicated to decision makers so that they can understand the reasonableness of the amounts presented to them.

5.34 To be reasonable, assumptions need to be consistent with the plans of the organization and reflect the expected economic effects of anticipated strategies, programs and actions, including those being planned in response to expected future economic conditions. To be supportable, assumptions need to be based on the past performance of the organization, studies or other sources that provide objective corroboration of the assumptions used. The process used to develop assumptions should be based on relevant information that is reasonably available at the time the budget is prepared.

5.35 There are two types of assumptions which are relevant to the budget process. The first are assumptions related to Province-wide factors such as population growth, income levels, Gross Domestic Product, and costs of major inputs such as fuel and wages. The second are department and program-specific assumptions related to costs of inputs and service levels. For example, a relevant assumption in the provision of health care would be hours of nursing care per patient day.

5.36 The Department of Health included specific instructions in the business plan and budget guidelines provided to the DHAs (see paragraph 5.27). However, the instructions did not include assumptions to be built into the budgets or the requirement for the DHAs to provide to the Department the assumptions utilized in producing their budgets. We suggest the communication of appropriate assumptions between the Department of Health and the DHAs.

5.37 The CDHA budget instructions described in paragraph 5.25 contained a section entitled *Population Health Assumptions*, which included a statement that the current mix of programs is to be maintained. A section entitled *Labour Assumptions* contained a statement that staffing and scheduling patterns will maximize productivity and meet operational needs. The business plan submitted to the Department of Health, described previously in paragraph 5.28, included a page outlining the assumptions incorporated in the plan. We found these assumptions were at too high a level or incomplete. For example, the only non-financial assumptions related to provision of services were:

- *"Due to our unique regional obligation to deliver tertiary and quaternary service, we cannot eliminate clinical programs. If we were to eliminate these services, there would be no cost savings because of the need to purchase these services from other provinces, without removing the costs associated with, for example, pre and post-surgical care."*

- *"The business plans for fiscal 2000/01 consisted of major reduction [sic] in Administration and Support Departments and reduction [sic] in managers. Thus further budget reductions will impact clinical services."*

5.38 Assumptions related to cost-drivers were submitted to senior management in early fall. We noted where these and other assumptions were in some cases documented and provided by program managers as part of their budget submissions. However, there was no documentation of senior management approval of the assumptions.

5.39 In most cases where assumptions were stated, we found they were adequately supported, although mainly through internal sources. We noted there was minimal documentation prepared on the risks and sensitivities of the amounts budgeted. Documentation of risks and sensitivities is especially important because clinical services are largely patient/client driven, and there is a risk of increased or decreased demand for services at any time during the year.

5.40 For the clinical and community health departments, statistics including projected clinical volumes/program activity for 2000-01 and assigned budget volumes for 2001-02 were included with the budget package. We were informed that the inpatient budget volumes were developed based on the number of beds available and projected occupancy rates. However, the ambulatory volumes were based on volume budgets developed prior to 2000-01.

5.41 We found the use of the budget volumes was not consistently applied in the budget process. Some unit managers adjusted the budget volumes to better reflect where they felt activity levels would be. Others used alternate sources of data to determine volumes for their budget calculations. In yet other cases, activity volumes were not factored in the budget calculation. We also found price increase assumptions for supplies were not consistently factored into the budget. Senior

management indicated that CDHA's budget process was based on the funding targets established by the Department of Health which resulted in a focus on available funding rather than expected activity levels. Management indicated that price increases and other factors were considered during the budget process and that, because of limited funding, program managers were expected to cover these increases within their assigned budgets. Targets were not increased if management felt the increases could be managed.

5.42 We suggest the volume, activity and price factors be considered by senior management earlier in the budget planning process. Senior management should develop assumptions based on these factors and other economic data. Senior management should present their assumptions to the Board, through the Finance and Audit Committee, for review and discussion. The risks and sensitivities associated with the assumptions should also be communicated. The Board needs only to indicate where they might disagree with the assumptions to be used, otherwise the assumptions should go forward to the managers and directors as the basis for preparation of the budget.

5.43 *Documentation and support* - The total operating budget of $488.5 million includes $343.3 million in compensation (salary and benefits) and $145.2 million in supplies. We selected a sample of compensation line items totaling $66.3 million (19%) and supplies totaling $34.7 million (24%). From the revenue budget of $61.8 million (excluding Department of Health funding) we selected a sample of line items totaling $41.0 million (66%). We examined the supporting documentation, verified calculations and assessed the adequacy of supporting analysis for the items.

5.44 Our findings resulting from examination of the test items are described as follows (see Exhibits 5.6 and 5.7 for further information). For 87% of compensation, 51% of supplies, and 15% of revenue items tested, support was sufficient. For $8.4 million (13%) of compensation, $13.2 million (38%) of supplies and $35.0 million (85%) in revenue, the 2001-02 budget amounts were based on either the budget or forecasted results for the 2000-01 fiscal year. The supporting analysis was not sufficient because it did not take into consideration possible increases in the cost of providing services or increases in volume and activity levels. For the remaining $3.8 million of supplies (11% of supplies, utilities-electricity), there was little or no evidence to support the factors used in the calculation of the budget amounts.

5.45 *Reliability* - Information presented in the budget should be supportable and free from error or bias. It should be linked to economic and program related assumptions and historical trends of actual costs. Users of the information must be able to depend upon it to faithfully represent what it purports to represent. Reliability is undermined when the amount in the budget bears little relationship to expected results.

5.46 The direction from senior management was to maintain expenditures at last year's level. The assigned budget volumes referred to above generally showed increases in activity. There were no operational plans on how to achieve reductions from the volumes indicated to activity levels which could be supported by the funding level.

5.47 More specifically, as mentioned in paragraph 5.28 above, to achieve a balanced budget CDHA was requested by DOH to reduce its expenditures by $9.6 million, of which $5.2 million was allocated to clinical areas. We were informed that senior management considered this amount as a target. No specific operational plans to accomplish this reduction were established.

5.48 At the time of our audit in early fall, the clinical portfolio was overexpended and management had been struggling to meet the budget target. The minutes of the Finance and Audit Committee indicated concerns with this situation and also efforts to implement cutbacks and strategies. In our opinion, there was no documented, approved plan to achieve the clinical reductions.

5.49 *Quality control* - Budget submissions from the managers and directors were submitted either by electronic file or on paper documents. There was no requirement for documented sign off at this initial stage. We noted that managers in the clinical units signed off on the paper copies of the standard staffing summary forms. We found the review and challenge processes to advance budget submissions at the senior management levels through to the Board were well documented.

5.50 Budget analysts are expected to complete a reasonableness review as they enter the budget information into the budgeting system. The Manager of Budgeting advised us that he also does a reasonableness review. There is no internal audit function at CDHA which could provide independent review of budget submissions within the organization. We recommend CDHA consider establishing an internal audit function which could provide independent review of the budget submissions and supporting analysis.

5.51 *Time lines* - The Department of Health, in its guidelines, established the time frame for the submission of business plans and budgets. While we recognize that significant organization and system changes were taking place at the Department during 2000-01, we found the time frame established was too compressed. We understand the Department was aware of this difficulty and has plans to address the problem for the 2002-03 budget cycle.

5.52 Within CDHA, we found that information was provided on a timely basis, although within a very tight time frame relative to the target dates set by the Department of Health.

5.53 The target date for Board approval of the budget is March, before the start of the fiscal year. To achieve that target, the House of Assembly must approve the Provincial Estimates prior to that time. An issue of concern is that the House is not approving the Estimates early enough to enable the Department of Health and CDHA to finalize budgets prior to the beginning of the fiscal year. Approval of the budget in March would enable monitoring of budgets and actual results to commence at the beginning of the new fiscal year.

5.54 *Recommendations* - Recommendations for sound financial reporting standards include:

- The Department of Health should communicate appropriate assumptions to the DHAs. The DHAs should communicate assumptions underlying budget submissions to the Department.
- Senior management should develop and communicate overall budget assumptions to the Board, prior to the commencement of the budget preparation process.
- Directors and managers should be required to document operational plans to achieve budget reductions communicated by senior management.
- Where feasible, objective, external support should be provided for assumptions.
- There should be formal sign-off on the budget recommendations at each level in the process.
- CDHA should consider the feasibility of establishing an internal audit function which could play a role in quality control during the budget process.

Sound Monitoring Process

5.55 *Introduction* - A sound monitoring process depends on appropriate policies and procedures for monitoring financial performance. Appropriate monitoring involves regular review of revenues and expenditures along with an analysis of operational resources. Timely reporting of findings is

an important component of a sound monitoring process and must start early in the schedule. Early reporting of monitoring results improves management's ability to assess financial and operational goal achievement, and make changes as required.

5.56 *Policy framework* - We expected that senior management would establish and communicate policies concerning the monitoring of financial performance. We also expected that budget to actual comparisons would be performed and criteria for the provision of written variance explanations would have been developed.

5.57 The Capital District Health Authority has formal monthly monitoring policies and procedures. Within the Finance Department, reporting to the budget manager, are a number of budget analysts responsible for completing these procedures. Staff utilize a computerized system which captures information at the cost center level.

5.58 Section 21(1) of the Health Authorities Act requires District Health Authorities to submit monthly and quarterly financial statements to the Department of Health. Two financial officers at the Department are assigned to monitor and follow up on the financial performance information and provide reports to the Director, Finance-Health Services.

5.59 CDHA policies require all variance analysis to be completed in a standard format. The budget analysts are responsible for providing explanations for all significant variances within their respective portfolios. Thresholds are established to determine the variances to be investigated and reported at the cost center and financial statement level. Explanations for variances over certain thresholds must be provided to the Finance and Audit Committee.

5.60 *Forecasting* - CDHA prepares monthly financial statements and variance analysis starting in April, at the beginning of the fiscal year. Preparation of forecasts for the fiscal year begins in September. Management advises that sufficient information is not available prior to that time to complete a meaningful projection. The policies on forecasting requirements are not documented. We suggest formal policies on forecasting be established.

5.61 *Timeliness* - CDHA policies require all variance analysis to be completed by the budget analysts and forwarded to the budget manager two days following the monthly close.

5.62 Monthly reporting to the Department of Health, as required by Section 21 of the Act, has not occurred. Compliance was delayed until *A Framework for Accountability Based on the Health Authorities Act of Nova Scotia* was presented to the CEOs and DHAs. The presentation has recently been completed by the Department. The monitoring report format is essentially the same as in prior years. CDHA's recent submission of budget leadsheet monitoring reports required collaboration and clarification with the Department, following which the reports were satisfactorily completed.

5.63 *Recommendations* - Recommendations for a sound monitoring process include the following.

- Monitoring reports in the required format should be provided to the Department of Health on a timely basis.
- Forecasting policies and procedures should be established.
- Operational plans and strategies to achieve budgetary targets should be formalized.

Capital Budgeting Process

5.64 *Introduction* - CDHA's ability to provide services is dependent upon maintenance of its capital infrastructure. Facilities, equipment and technology require upgrades and updating. Appropriate cost-benefit analysis should be required as support and justification for the analysis of resources required. Exhibit 5.4 sets out the detailed capital budget expenditures and funding levels for 2001-02, the first year of the new CDHA.

5.65 *Policies and procedures* - CDHA staff and management follow documented procedures for completion of the capital budget. Time lines and responsibilities are established and communicated. Thresholds have been established and communicated for items considered to be capital assets. Budget presentations to the executive leadership team include prioritized lists and estimated costs. The procedures also require a challenge and review process to be completed at the executive management team level. Once approved, funds are released at three different times during the year. Periodic reporting against the approved budget is provided to senior management and the Board.

5.66 *Needs determination and prioritization* - The 2001-02 capital budget was the first capital budget for the new consolidated organization. The process included participation from the appropriate representatives of the predecessor organizations involved. Current activities include consolidating policies, procedures and staff. As well, a space planning review is under way to ensure maximum utilization of space and facilities.

5.67 CDHA has listings of longer-term capital requirements for information technology and renovations. Long-term capital equipment requirements for the Queen Elizabeth II site have been documented but there is no list for the entire CDHA. We suggest that CDHA and the Department of Health collaborate and develop a common perspective on the longer-term capital requirements. Benchmarks of capital spending in similar organizations could be used in this process.

5.68 *Capital equipment* - Requests are prepared at the department level. A second level review and approval is required before the item is added to the department capital request list. The Capital Committee consists of medical staff, a vice-president, clinical directors, biomedical engineers, and materiel management staff. Members collaborate in determining the priority of the listed items.

5.69 *IT hardware and software* - The budget is based on a project implementation report compiled from IT managers' requirements completed in prior years. Projects are prioritized by the Director of IT, based on a strategic direction established by the Executive Management Team, for operational commitments, system upgrades or to prevent imminent systems failure.

5.70 *Capital renovations* - The capital renovations list is brought forward from a review of prior year capital renovation priorities and adjusted for impacts from clinical priorities. The list is prioritized at the executive level.

5.71 *Submission to Department of Health* - The Department of Health differentiates between operating and capital in determining annual funding for DHAs. Correspondence from the Department indicates capital funding may be used by the DHAs, at the discretion of the DHA, to assist operational requirements. However, it appears that operating funds could not be used for capital requirements without approval of the Department. Of CDHA's total funding from the Department, $3.9 million was allocated toward its capital budget requests.

5.72 Section 30 of the Health Authorities Act states that DHAs shall not make any expenditure for the acquisition of capital items unless it is provided for in an approved health-services business plan or has the prior written approval of the Minister of Health. The CDHA Board complied with the requirement and included a capital budget component in its business plan, which the Department

approved. The capital request aggregated $53.5 million (see Exhibit 5.4). Funding expected from all sources amounted to $9.2 million including $3.9 million funded by the Department of Health. Capital requests of $44.3 million were deferred to future years. We suggest that CDHA and the Department of Health develop an appropriate funding strategy for the longer-term capital requirements.

CONCLUDING REMARKS

5.73 The Capital District Health Authority is a very large organization with responsibility for delivery of significant health programs and services. The 2000-01 fiscal year was a year of transition and as such was not a typical year for the CDHA. The CDHA formation required analysis and reorganization of services in all areas, including planning, finance, and medical programs. Within the same time frame, budget preparation and financial year-end processes were also carried out within Department of Health time lines. CDHA management and staff have successfully completed considerable fundamental steps in business planning and budgeting during a very demanding time in CDHA's evolution.

5.74 Because CDHA receives most of its funding from the Province, the quality of its budgeting processes is important to the Department of Health and the House of Assembly. The Department and House need to have good information about the assumptions included in the budget submission to determine whether the requested amounts are reasonable and to support an appropriate allocation of funds. We have recommended improvements to the process for documenting and communicating underlying budget assumptions.

5.75 During a period of fiscal restraint, it is very important for organizations to have operational plans in place to deal with 'gaps' between projected expenditures based on service volume expectations and funding allocations. Otherwise, the likelihood of achieving fiscal targets is reduced. We noted instances at the CDHA where approved, operational plans to achieve fiscal targets are required.

Exhibit 5.1

HEALTH CARE FACILITIES OPERATED BY THE CAPITAL DISTRICT HEALTH AUTHORITY

Queen Elizabeth II Health Sciences Centre
Nova Scotia Hospital, including the East Coast Forensic Psychiatric Hospital
Dartmouth General Hospital and Community Health Centre
Hants Community Hospital
Twin Oaks Memorial Hospital
Musquodoboit Valley Memorial Hospital
Eastern Shore Memorial Hospital
Cobequid Multi-Service Centre

Exhibit 5.2

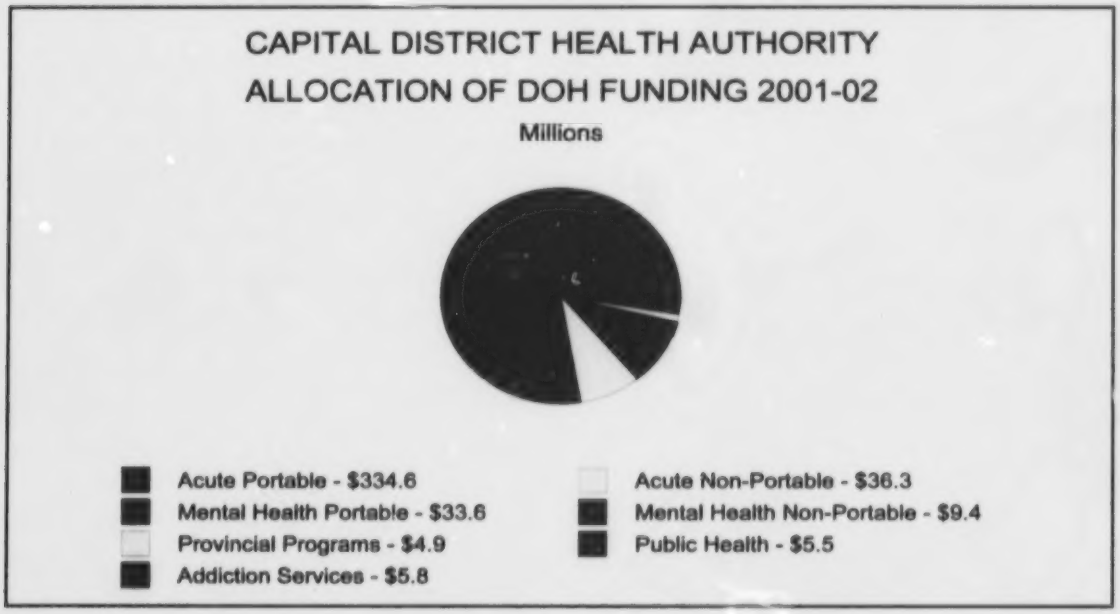

CAPITAL DISTRICT HEALTH AUTHORITY
ALLOCATION OF DOH FUNDING 2001-02
Millions
Acute Portable - $334.6
Mental Health Portable - $33.6
Provincial Programs - $4.9
Addiction Services - $5.8
Acute Non-Portable - $36.3
Mental Health Non-Portable - $9.4
Public Health - $5.5

Exhibit 5.3

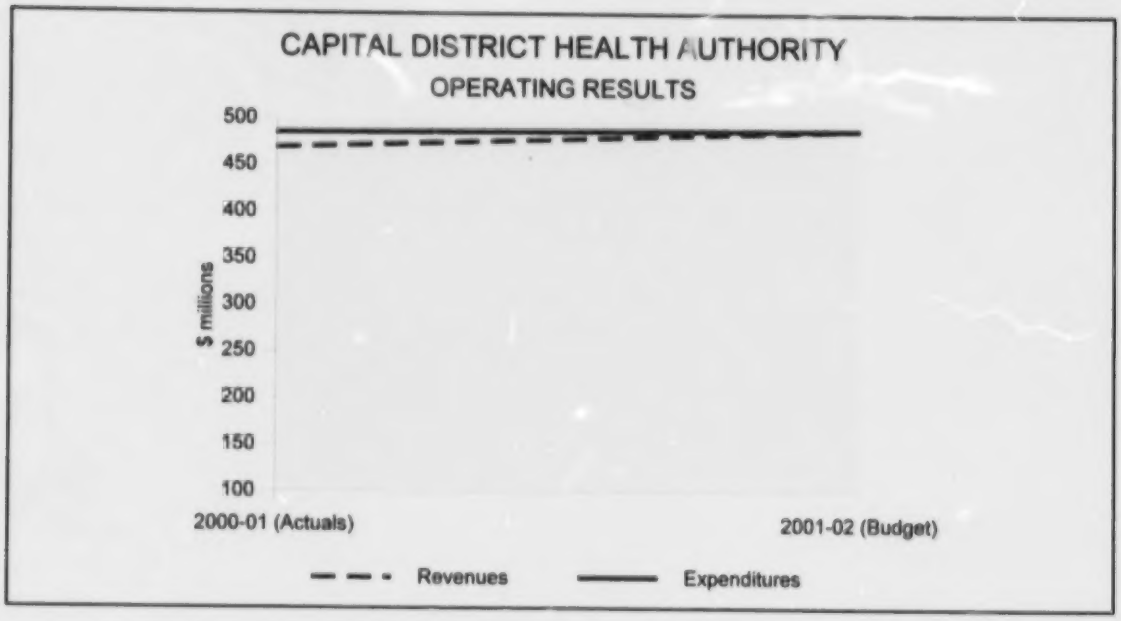
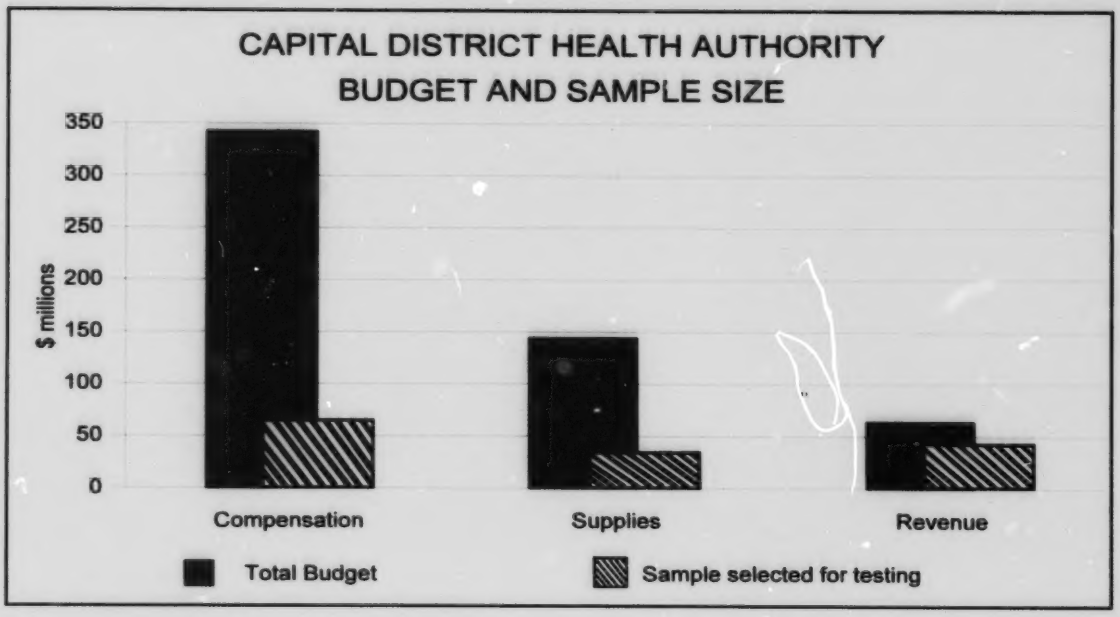

CAPITAL DISTRICT HEALTH AUTHORITY
OPERATING RESULTS
$ millions
500
450
400
350
300
250
200
150
100
2000-01 (Actuals)
2001-02 (Budget)
Revenues
Expenditures

Exhibit 5.4

CAPITAL DISTRICT HEALTH AUTHORITY
CAPITAL EQUIPMENT AND RENOVATIONS SUBMISSION
FISCAL 2001-02
($ 000's)

REQUEST	
Capital Equipment	
Capital District Health Authority	$ 4,700
Nova Scotia Hospital	1,100
QEII Health Sciences Centre	21,900
	$ 27,700
Information Technology	16,600
Capital Renovations	
Capital District Health Authority	1,750
Nova Scotia Hospital	2,100
QEII Health Sciences Centre	4,800
Dept. of Comm. & Epidemiology	600
Total Request	$ 53,550
FUNDING	
Department of Health	3,900
QEII Foundation	2,000
Dartmouth General Foundation	500
Hants Foundation	175
NS Hospital Foundation	50
Partners for Care	2,000
Dept. of Comm. & Epidemiology	600
Total Projected Funding	$ 9,225
Deferred capital requests	**$ 44,325**

Exhibit 5.5



**Excluding Department of Health funding*

Exhibit 5.6

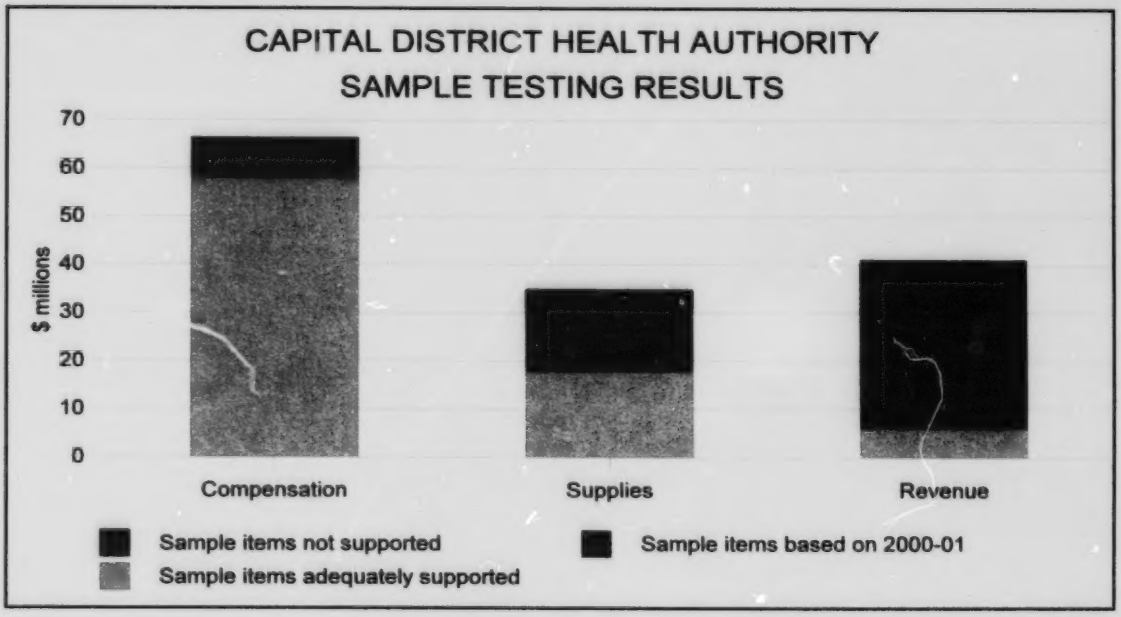


Exhibit 5.7

CAPITAL DISTRICT HEALTH AUTHORITY
SAMPLE TESTING RESULTS

Compensation	**$ Millions**	**Supplies**	**$ Millions**
	Budget based on 2000-01		
Physiotherapy	4.7	Cardiac Catheter Unit	4.5
Emergency	3.7	OR Orthopedics	3.5
		OR Cardiac	5.2
	8.4		*13.2*
	Budget not adequately supported		
		Utilities - electricity	3.8
Total	***8.4***		***17.0***

CAPITAL DISTRICT HEALTH AUTHORITY'S RESPONSE

The Capital District Health Authority was created on January 1, 2001 under the Health Authorities Act. It integrated the QEII Health Sciences Centre, former Central Regional Health Board and the Nova Scotia Hospital under one Board of Directors.

The financial planning and budgeting process as audited by your department was during the first year of our operation as a new organization. Initially, we were operating three distinct and separate finance departments, using three different information systems. Under this challenging scenario, we were successful in developing a consolidated budget for the CDHA in order to have an approved budget in time for the start of our fiscal year on April 1, 2001.

We are delighted to report that, to date, we have been successful in consolidating all administrative and support departments, including Financial Services, in the CDHA. We have also consolidated to a single Finance & Human Resource Information System for the District.

Overall, we concur with the results of your report and view the recommendations as an opportunity to improve our systems and processes as the organization grows and matures.

We make the following specific comments with respect to Section 5.7 "Principal Observations of this Audit":

- *We are delighted that the Auditor General noted that our budget preparation was appropriate and that submissions to the Department of Health were within required timeframes. This accomplishment, in our first year of operation, under three different financial systems, was due to the hard work and dedication of our staff.*

- *We agree with the recommendation concerning improvement to the documentation and some of the assumptions underlying our budget submission.*

  We do note however that we did prepare assumptions, mainly through a cost driver document that was submitted to Executive Management, Finance & Audit and Department of Health.

- *We agree there was no approved operational plan in place to save the $5.2 million allocated to clinical areas. It was our plan to place this in Clinical Services as a target and develop a plan during the first quarter. Due to the pressures in clinical workload there was no opportunity to obtain the savings targets. Executive agreed to maintain the target and look for opportunities throughout the organization. This was not successful and we are projecting a year-end deficit of approximately $5 million.*

  We have since been advised by Department of Health that there will be additional funding for fiscal 2001/02 to cover over-expenditures in oncology drugs, dialysis and overtime for nursing related to non-recruitment. We estimate receiving $3-5 million based on this commitment.

- *We agree with the recommendation that the Department of Health and CDHA work together to develop a funding strategy for capital equipment. Our capital funding is totally*

  inadequate to maintain current medical technology, information technology and renovation to our facilities.

  We have to date, developed annual and five-year projections for the Department of Health. As well, we have recently ompleted a document "Five Year Capital Requirements & Funding Sources/Alternatives" which we have submitted to the Department of Health.

We endorse the observations and recommendations concerning the importance of the Department of Health developing appropriate documentation, sensitivity analysis and assumptions and in communicating this to the health system in a timely manner.

DEPARTMENTAL AUDITS

6.

AGRICULTURE AND FISHERIES - FOOD SAFETY

BACKGROUND

6.1 Throughout the years, the Government of Nova Scotia has fulfilled its responsibilities for food safety through a number of different departments. The Department of Health was responsible for inspection and enforcement relating to food service establishments (e.g., restaurants and cafeterias). The Department of Agriculture and Marketing, and related agencies, had certain responsibilities for meat and milk safety. The Department of Environment had responsibilities in areas where food service was a part of the activities of an entity the Department would routinely inspect (e.g., campgrounds). The Department of Fisheries and Aquaculture monitored the safety of food produced in certain fish processing plants. In the early 1990's, the food safety inspection responsibilities of the Department of Health were transferred to the Department of the Environment.

6.2 Decades ago, regulating food safety in food service establishments was the responsibility of boards of health which reported to the various municipalities. Each board had considerable autonomy in this function, and this resulted in different food safety regulations and practices throughout the Province. Eventually, the boards were disbanded and their responsibilities were assumed by various Provincial government departments. However, at the time of our audit, a multitude of regional regulations still existed.

6.3 In 1993, a joint steering committee representing Federal, provincial, territorial and municipal authorities from agriculture, fisheries and health agencies launched the Canadian Food Inspection System initiative in response to a need for a comprehensive approach to food inspection in Canada. In 1994, the Federal, provincial and territorial Ministers of Agriculture established the Canadian Food Inspection System Implementation Group to take a lead role in developing a process to harmonize national food inspection systems. The Group published a report in 1997 outlining a blueprint for the process (see Exhibit 6.1 on page 113).

6.4 In response to these initiatives, and through consultation among representatives from the Departments of Agriculture and Marketing, Environment, Fisheries and Aquaculture, and Health, the Province of Nova Scotia's new food safety program was created. The Department of Agriculture and Marketing was made responsible for areas related solely to food (food service establishments, meat and dairy), while those areas with a joint food and environmental component (day care centres and campgrounds) remained with the Department of the Environment. The Department of Fisheries and Aquaculture retained its licensing and inspection responsibilities for fish processors.

6.5 In 2000, the Department of Fisheries and Aquaculture amalgamated with the Department of Agriculture and Marketing to form the Department of Agriculture and Fisheries. The new Department is organized into six branches: Agriculture Services; Legislation and Compliance Services; Industry Development and Business; Fisheries and Aquaculture; Policy, Planning and Communications Co-ordination; and the Nova Scotia Agricultural College. The organizational structure of the Department is illustrated in Exhibits 6.2 and 6.3 on pages 114 and 115.

6.6 Under the Legislation and Compliance Services Branch, Quality Evaluation Division, the Food Safety Section is responsible for the inspection and licensing of food service establishments, the meat inspection program, and dairy field inspections. These activities are mandated by the

Health Act, the Meat Inspection Act, the Dairy Commissions Act, and related regulations. The Fisheries Licensing and Inspection Section is responsible for matters related to the buying and processing of fish under the Fisheries and Coastal Resources Act and Fisheries Inspection Regulations.

6.7 Nonetheless, food safety remains a joint Federal-Provincial responsibility. The Federal government, through the Canadian Food Inspection Agency, is responsible for Federally-registered food processors, as well as food processed or served in Federal organizations or on Federal lands. Generally, a company must be Federally registered if its food products cross national or provincial boundaries. The Federal government's responsibilities for food safety come from the Canada Food and Drug Act. This legislation includes powers for food recall.

6.8 The Nova Scotia food safety program is generally responsible for foods processed, sold and served in the Province. The Province is responsible for licensing all fish processors in Nova Scotia. However, since most fish processors in the Province export a portion of their product, they are Federally registered and subject to inspection by the Canadian Food Inspection Agency. The Province relies on these inspections as support for the granting of licences. Because few fish processors produce for only local markets, the Canadian Food Inspection Agency has agreed to inspect these operations on behalf of the Province. The Department has signed a memorandum of understanding with the Canadian Food Inspection Agency to address fish food safety, and works closely with the Agency to coordinate their respective responsibilities.

6.9 Water is included in the scope of the food safety system when it is served by a food service establishment or bottled and sold at the retail level. The Province inspects water served by food service establishments. Bottled water is regulated by the Canadian Food Inspection Agency because it is listed as a processed food product under the Canada Food And Drug Act.

6.10 The Food Safety Section of the Department of Agriculture and Fisheries has a staff of 28 full-time employees and up to 12 part-time employees, depending on the time of year. Its budget for the 2000-01 fiscal year was $1,350,900. It is responsible for inspecting approximately 5,300 food service establishments, 374 dairy producers, 9 dairy processors, and 20 meat plants. Approximately 275 fish processing plants requiring a Provincial licence are inspected by the Canadian Food Inspection Agency.

RESULTS IN BRIEF

6.11 The following are our principal observations from this audit.

- Under the Health Act, there are a number of municipal regulations related to food service establishments. This results in differences throughout the Province in licensing, inspection and other compliance requirements. The Department is preparing new regulations for food service establishments to replace existing Provincial and various municipal regulations. The Department is also developing new regulations for slaughterhouses and meat processing plants. Each set of new regulations is based upon national standards and codes of practice developed by the Canadian Food Inspection System Implementation Group. These are based on scientific risk assessment and management principles.

- The respective licensing, inspection, enforcement and other responsibilities of the different entities involved in the food safety system appear to be well defined.

- The Department has developed policies and procedures to guide staff. Except in the case described below, we found policies to be consistent with legislation and regulations.

- Churches, fire departments and other volunteer organizations can hold up to six events each year in which food is served without requiring a formal inspection by the Department of Agriculture and Fisheries. Organizations are required to obtain a Temporary Events Licence from the Department when food is involved, and there is generally a review of food preparation, transport, storage and serving practices by a Food Safety Specialist prior to granting the licence. However, any advice from the inspector is provided in good faith and there is no follow-up to determine if the advice was acted upon. We could find no support for such an exemption in the Health Act, and consequently the policy may not be in compliance with Provincial legislation. We did note that the exemption is specified in draft regulations awaiting finalization and approval.

- We observed weaknesses in the system with respect to day care centres. Day care centres are inspected by the Department of Environment and Labour. Many centres serve food, and in such cases the inspection will address issues relating to food safety. The current system does not ensure that all day care centres are inspected on a regular and timely basis. In addition, the manner of determining the frequency of inspections for day care centres is different from that used by the Department of Agriculture and Fisheries for food service establishments, and the licensing of day care centres is inconsistent from region to region.

- We reviewed a sample of inspection files to determine if the Department's monitoring and inspection systems were operating effectively to ensure food safety requirements outlined in legislation, regulations and policies were being met. We found that systems were operating satisfactorily. However, we had a number of observations relating to weaknesses in file documentation and errors in the recording of inspection information in the Food Safety Section's computer database.

- Based on our review of a sample of files, inspection frequency targets were generally met in 2000. However, a new risk-based policy requiring more frequent inspections is being implemented in the Food Safety Section. When the new policy is fully implemented, substantially more inspections will be required on an annual basis. We are concerned that the Department may not be able to meet the revised inspection frequencies and we recommended that the Department develop a strategy to address the increased demand the new policy will place on its staff and other resources.

- The Food Safety Section has good systems for ensuring the competency of its staff. Standards have been set for the educational and professional requirements of inspection and management staff. Regular training is provided to keep staff current on issues relating to food safety. There is a system for monitoring and evaluating the performance of staff.

- We recommended a system of periodic rotation of inspectors among the body of food service establishments they inspect, where it is practical.

- We observed room for improvement in the Department's reporting on performance with respect to its food safety responsibilities.

AUDIT SCOPE

6.12 In March 2001 we completed a broadscope audit in the Department of Agriculture and Fisheries. The assignment was conducted under the mandate established by Section 8 of the Auditor

General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

6.13 Our audit focused on the Provincial food safety system, notably in the areas of standards, compliance, enforcement, competency and accountability. More specifically, the objectives of this assignment were to assess the Department's:

- process for developing and promulgating food safety standards;
- monitoring, inspection and other activities as they relate to the food safety requirements of legislation, regulations and/or policy;
- systems for the enforcement of Provincial legislation and regulations related to food safety;
- processes to ensure the competency of personnel involved in food safety inspections, enforcement and training activities; and
- accountability framework and reporting with respect to food safety.

6.14 Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department and are outlined in Exhibit 6.4. Our audit procedures included interviews with management and staff, testing of inspection files, as well as an examination of other documents. Because certain food safety compliance procedures are undertaken by the Department of Environment and Labour, we performed some testing in that Department as well.

PRINCIPAL FINDINGS

Standards

6.15 *Standards development* - The development of food safety regulations begins with an identified need to create or change a standard. This need may become apparent from several sources, such as national, international or industry developments, or as a result of an analysis of inspection results. Research and consultation with industry and the public occur before changes to regulations are finalized and presented for approval to Executive Council.

6.16 The Department is preparing new regulations for food service establishments to replace existing Provincial and various municipal regulations. In keeping with national and international developments, the draft regulations are focused on areas of risk related to food handling and preparation and are supported by separate codes of practice and guidelines. The standards and codes of practice proposed for adoption in the new regulations were developed through the Canadian Food Inspection System Implementation Group (CFISIG), based on scientific risk assessment and management principles. The proposed new regulations represent a move away from detailed, prescriptive rules towards a more flexible system which will allow for changes in food technology and operational procedures. Accordingly, the new regulations will not have to be revised every time a change is made to a standard or code.

6.17 The Department is also developing new regulations for slaughterhouses and meat processing plants to replace existing regulations. Similar to those proposed for food service establishments, the draft regulations are based upon national standards and codes of practice developed through CFISIG.

6.18 The draft regulations for food service establishments and meat plants have been in development for the past two to three years and management expects the consultation and approval process will be completed during 2001.

6.19 *Public education* - The Department considers education to be an essential component of the food safety system. Educational efforts are aimed at food service workers specifically, as well as the public in general. The Department has developed training courses for food handlers both in the service industry and in community organizations. Training and certification of bulk milk drivers in the dairy industry - a requirement under Provincial regulations - is also provided by the Department.

6.20 The Department's internet web-site provides links to information on food safety and is easily accessible to the public. The information, in the form of fact sheets which can easily be printed, is updated periodically. Newspaper articles, public information bulletins and displays at special events are other methods the Department uses to publicize food safety issues.

6.21 Department staff were also recently involved in a national initiative (The Canadian Partnership for Consumer Food Safety Education), along with representatives from Federal and other provincial governments and industry, to promote food safety in the public school system (see Exhibit 6.5 on page 117). Information and programs from this initiative are available to schools throughout Nova Scotia.

Compliance

6.22 *Legislation* - Food safety is mandated under several pieces of Provincial legislation as described in paragraph 6.6 (see also Exhibit 6.6 on page 118). Department inspectors are responsible for ensuring compliance with all food safety provisions. The Department has developed policies and procedures to guide staff. Except in the case described below, we found policies to be consistent with legislation and regulations.

6.23 We observed that churches, fire departments and other volunteer organizations can hold up to six events each year in which food is served without requiring an inspection by the Department of Agriculture and Fisheries. These groups are not required to equip kitchen facilities to the same extent as restaurants. Organizations are required to get a Temporary Event Licence from the Department when food is involved, and there is generally a review of food preparation, transport, storage and serving practices by a Food Safety Specialist prior to granting the licence. However, any advice from the inspector is provided in good faith and there is no follow-up to determine if the advice was acted upon. We were told that this exemption was provided to volunteer organizations in recognition of the valuable service they provide to society. However, we could find no support for such an exemption in the Health Act, and consequently the policy may not be in compliance with Provincial legislation. We did note that the exemption is specified in draft regulations awaiting finalization and approval.

6.24 Under the Health Act, there are a number of municipal regulations related to food service establishments. This results in differences throughout the Province in licensing, inspection and other compliance requirements. For example, in the Town of Kentville, a grocery store is required to be licensed and inspected. In the surrounding Municipality of Kings County, there is no such requirement. In the municipalities of Colchester and Yarmouth there are certification requirements for food service workers which are not a requirement in most other municipal jurisdictions. As described in paragraph 6.16, the Department is developing new regulations for food service establishments which will eliminate the inconsistencies in licensing and other requirements.

6.25 *Licensing* - Food service establishments are subject to Provincial licensing and inspection requirements. The Department administers the licences, which includes collecting the fees, recording information on licence holders, and issuing the licences. Licences are renewed annually and expire on March 31 each year. Prior to the end of March, renewal notices are sent to the current list of licence holders and the licences are renewed when the fee is paid. There is no formal process to ensure that all establishments that require a licence have been licensed, especially new establishments which opened during the year. The Department relies on informal communication with other departments and municipalities and monitoring by inspectors in the communities to ensure all establishments are licensed.

6.26 The Department does not require an establishment to be inspected immediately prior to the renewal of its licence. Section 4(2) of the Eating Establishments (Provincial) Regulations states that a licence shall be renewed annually "*only upon receipt of a written recommendation... indicating that the eating establishment continues to conform to these regulations.*" Management considers that, as long as an inspection has taken place sometime during the year, the requirement is satisfied. However, an inspection is required prior to issuing a first-time licence to a new establishment.

6.27 As described in paragraph 6.4, and as outlined in a memorandum of understanding between the Department of Agriculture and Fisheries and the Department of Environment and Labour (DOE&L), food service inspections for day care centres and campgrounds are performed by public health inspectors employed by DOE&L, in conjunction with their other regulatory inspection responsibilities. Management of DOE&L informed us that they do not have a complete list of the day care centres and campgrounds that require a food service licence and they cannot be sure that all such facilities have been inspected. We were informed by DOE&L officials that day care centres and campgrounds are the responsibility of the Departments of Community Services and Tourism and Culture, respectively. Inspections of these facilities are carried out when DOE&L is notified by the appropriate department that an inspection is required. Inspectors individually schedule the inspections and forward copies of the food service inspection reports to the Department of Agriculture and Fisheries. We recommended that a communication strategy be developed to facilitate better sharing of information and increase assurance that all day care centres and campgrounds are inspected on a regular and timely basis.

6.28 We also found that the Department of Agriculture and Fisheries was not consistent in its handling of the day care centre information that it received. In some cases, day care centres were registered for food service licences and fees collected when inspection reports were received from DOE&L. In other cases, they were not registered for a licence and fees were not collected. Management informed us that information to complete the licensing process was not always provided in the inspection reports. Management indicated that the day care centres missed would be included in the licensing process in 2001.

6.29 Under the Meat Inspection Act, slaughterhouses and meat processing plants are required to be licensed and inspected in order to operate. Licences are administered by the Department in a manner similar to that for food service establishments. Under the Dairy Commission Act and Regulations, dairy producers and processors are required to be licensed and inspected. Licence administration is the responsibility of the Nova Scotia Dairy Commission.

6.30 The Department issues and administers licences for fish processing plants in accordance with the Fisheries and Coastal Resources Act. Based on a memorandum of understanding between the Department and the Canadian Food Inspection Agency, the Agency provides the inspection services required under Nova Scotia legislation and regulations. Yearly renewal of a fish processing licence is conditional upon completion of the annual inspection and certification that the plant meets the regulatory requirements.

6.31 *Inspections* - The Department has established a risk-based approach to inspections that focuses on potential hazards in a food service establishment. Establishments are assessed as high, medium or low risk based on, among other factors, the types of food prepared, the clientele served and inspection history. The assessment determines the number of inspections to be performed each year (see Exhibit 6.7 on page 119). As a minimum, one inspection is required for each establishment each year. The standard inspection report is designed for exception reporting and is generally used only to note compliance violations. Follow-up inspections are carried out when compliance violations are noted, based on the severity of the violation and related risk.

6.32 Under the meat inspection program, all animals are required to be inspected prior to slaughter, during the slaughtering process, and through to the final meat product. Thus an inspector must be present at a slaughterhouse whenever it is operating. There are twenty slaughterhouses in the Province. Five are in operation at least three days a week, with the others operating less frequently. The Department ensures compliance with regulatory requirements by scheduling inspectors to be on-site whenever a meat plant is in operation.

6.33 The Department also carries out inspections of dairy producers and processors on behalf of the Dairy Commission. There are 374 dairy producers (farms) that require inspection. The inspections focus on the general conditions of the farm, sanitation and maintenance. The inspectors are also involved in quality assurance through the collection of milk samples for laboratory testing. Each farm is scored out of a maximum of 100 points, with minimum score requirements for specific areas of concern. Failure to achieve a minimum score requirement will result in a follow-up inspection. A farm earning a total score of 98 or more which meets all minimum requirements in each category may be exempted from an inspection in the following year. Annual inspections are required for all producers achieving farm scores of less than 98.

6.34 Dairy processors (i.e., plants) exporting products outside of the Province are required to be Federally registered and licensed, and are subject to inspection by the Canadian Food Inspection Agency. Processors who serve only local markets are Provincially licensed and inspected. At the time of our audit, there were nine Provincially licensed dairy processors. The Provincial inspection process and report are based on the system used by the Federal inspectors, which is derived from the national Dairy Regulations and Code developed through CFISIG. A minimum of two inspections per year are performed with follow-up inspections when there are significant compliance violations.

6.35 As described in paragraph 6.8, inspections at fish processing plants are performed by Federal inspectors. The inspections are carried out in accordance with a quality management program developed by the Canadian Food Inspection Agency (CFIA). The program requires all plants to develop and implement a quality control program. The Department has a copy of CFIA policy manuals which outline the inspection process, along with compliance and enforcement strategies. The Department is confident that the work of CFIA meets all of the regulatory requirements of Provincial legislation.

6.36 We reviewed a sample of inspection files to determine if the Department's monitoring and inspection systems were operating effectively to ensure food safety requirements outlined in legislation, regulations and policies were being met. We found, generally, that systems were operating satisfactorily. However, we have a number of observations to report.

6.37 We selected 55 food service establishments from the list of current licence holders for 2000 and reviewed the related inspection files. We observed that 48 of the establishments were inspected during the year, three had closed or otherwise did not require an inspection, and four had not been inspected. Of the four establishments not inspected, one was rated as high risk, one as medium risk, and two were low risk. We were informed that the high and medium risk establishments were subsequently scheduled for inspection in early 2001. We were also told that inspections of low risk

establishments are sometimes deferred to the following year in order to ensure higher priority establishments - those rated as high or medium risk - are inspected on a timely basis. This was consistent with our observation that some of the low risk establishments in our sample were inspected in 2000 but not inspected in 1999.

6.38 We observed that documentation in inspection files was not always consistent or complete. For example, some inspection reports were missing the inspection date and licence expiry date, others were missing the establishment's risk rating, and in one case the inspector's signature was not on the report. We also noted two instances where inspection reports were missing from the file. Further, we observed that when food safety violations were noted on inspection reports, they were not always properly referenced to the applicable risk category item listed on the report. We recommended that formal standards and guidelines for documentation of inspections be established and that reports be reviewed periodically to ensure standards are being followed.

6.39 We found a number of instances where a significant safety violation was noted on an inspection report, but no follow-up inspection was scheduled and there was no explanation provided in the file. We were subsequently provided with satisfactory explanations for why follow-up inspections were not necessary in those circumstances. In most cases, the explanation was that the matter leading to the violation was corrected before the inspector left the food establishment's premises. We recommended that all such information be documented in the files to provide complete support for inspection activities.

6.40 Food service establishment inspection files consist of paper files, including inspection reports and other documentation, and an electronic database where information from the inspection reports is recorded. We observed a number of discrepancies between the information documented on the inspection reports and in the database including risk rating differences and reinspection dates not recorded or recorded incorrectly. Most of the discrepancies were explained as data entry errors which raises a concern about the integrity of the data upon which management relies to monitor inspection activities. We recommended a system of quality control be developed and implemented, including periodic review and comparison of paper and electronic files, and monitoring of computer data changes.

6.41 From our review of inspection files, we noted that Department of Environment and Labour inspection reports for day care centres are similar to the ones used by Department of Agriculture and Fisheries inspectors. However, we observed a difference in the approach to inspections by the two departments. It appears that the day care centres are not assigned a risk rating and are only inspected once a year, as required for their operating licence through the Department of Community Services. Under the Department of Agriculture and Fisheries' policy, every food service establishment requires an assessment of the risks associated with food service operations and the population served. The risk assessment rating determines the number of inspections required during the year. Discussions with Department of Agriculture and Fisheries officials suggest that some day care centres would likely be visited more than once per year if rated and inspected in a manner similar to other food service establishments. We recommended that Department officials undertake discussions with DOE&L officials to develop an approach for day care centre inspections which is appropriate and consistent with the treatment of other food service establishments.

6.42 *Inspection frequency* - A number of years ago, the former Department of Agriculture and Marketing established a policy for determining the minimum number of inspections a food service establishment required each year, based on a risk assessment process. Low and medium risk establishments required at least one inspection per year and high risk establishments required one or two inspections per year, depending on inspection history.

6.43 In the fall of 1999, the policy was revised and new inspection targets were established based on research into food safety risks and optimal inspection frequencies. Low risk establishments now require one inspection, medium risk establishments require two inspections, and high risk establishments require three inspections per year. The revised policy was introduced in 2000 using a phased-in approach and management expects it to be fully implemented by the end of 2001. Based on our review of files, inspection frequency targets were generally met in 2000. However, in most cases the targets were the lower ones, based on the old policy. Had the new policy been fully implemented, substantially more inspections would have been required. Also, as stated in paragraph 6.37, inspections of low risk establishments are sometimes deferred to the following year to allow for higher priority inspections. We are concerned that the Department may not be able to meet the revised inspection frequencies and we recommended that the Department develop a strategy to address the increased demand the new policy will place on staff and other resources.

6.44 *Complaints* - The Department has developed a system to record and follow up on consumer complaints relating to food safety. Complaints are documented on a standard form and classified according to the type of complaint, for example, food borne illness or unsanitary conditions. An inspector carries out an investigation and documents the results on an inspection form. Complainants are informed of the result of the investigation, if appropriate.

Enforcement

6.45 *Roles and responsibilities* - Enforcement powers for compliance with food safety provisions are outlined in a number of Acts. Enforcement powers under the Health Act and Regulations (primarily those relating to food service establishments) may be exercised by a medical officer appointed by the Department of Health. The Department of Agriculture and Fisheries has a formal understanding with the Department of Health to coordinate the responsibilities of each department with respect to the enforcement of food safety. Agriculture and Fisheries has also developed a policy statement which further describes the enforcement roles and responsibilities of its inspectors and management.

6.46 Enforcement powers for compliance with the Meat Inspection Act and Regulations are directly under the mandate of the Department of Agriculture and Fisheries. Under the Dairy Commission Act and Regulations, final authority for enforcement rests with the Dairy Commission. The respective Acts and regulations define responsibilities for enforcement.

6.47 Enforcement of compliance with food safety provisions of the Fisheries and Coastal Resources Act and the Fish Inspection Regulations, as noted in paragraph 6.35, is carried out by Federal inspectors. Roles and responsibilities are clearly defined in policy and procedures manuals, as well as in a memorandum of understanding with the Canadian Food Inspection Agency.

6.48 *Enforcement procedures* - Where there is an immediate risk to human health, enforcement under the Health Act may involve seizing and destroying unsafe or unwholesome food, or closing a food service establishment. These measures are carried out by the Department's inspectors upon authorization (order) by a medical officer of the Department of Health. Management indicated that the Department has a good working relationship with the Department of Health and is able to obtain the required authorizations without difficulty.

6.49 Where the threat to human health is not immediate, but a food service establishment is found to be in violation of the Act and regulations, the owner is provided an opportunity to correct the problem. A follow-up inspection is also carried out. The number of opportunities an owner is given to address a problem, and the amount of time, are determined by the individual inspector and based upon the nature of the problem and the related health risk. If the problem is not rectified, the inspector may call upon management to intervene, and possibly initiate an action against the owner, such as licence suspension or cancellation.

6.50 Through discussion with management and inspection staff, we found that the inspectors, in general, believe they have enough guidance, training, and experience to handle compliance issues. Inspectors promote compliance through suggestions for improvement when conducting inspections and teaching food handler courses. Inspectors believe they are well supported by management and generally have enough authority to enforce serious compliance violations. However, there was some indication that additional authority would decrease the number of less serious compliance violations and, consequently, reduce the number of follow-up inspections required. Since the new regulations are still in draft format, there is now the opportunity to develop stronger or new enforcement provisions. We encouraged the Department to research the enforcement tools used in other jurisdictions - such as ticketing, fees based on inspection experience, and posting of inspection results - for appropriateness and practicality for Nova Scotia.

6.51 *Appeals* - Specific appeal procedures are provided in various Acts and regulations. Under the Health Act, an establishment owner must be provided the opportunity to appear before the medical officer to show cause why an order to close an establishment or seize food should not be made. Similarly, under the Dairy Commission Act, a milk producer or processor may have a hearing with the Dairy Commission before a licence is suspended or canceled. Appeals under the Meat Inspection Act are heard by the Meat Inspection Board. We were informed that membership on the Meat Inspection Board has lapsed, and there is currently no Board to hear appeals. However, a special appeal panel could be assembled if required. It is expected that the new regulations currently being drafted, as noted in paragraph 6.17, will amend the meat inspection appeal procedures.

6.52 *Food-borne illness outbreaks* - A protocol has been established for investigating food-borne illness outbreaks, and roles and responsibilities are documented in a manual. A medical officer of the Department of Health is designated as the outbreak team leader. The food safety inspectors' responsibilities include inspecting alleged problem establishments, documenting case histories and collecting food samples.

Competency

6.53 *Qualifications* - The Department has two classifications of inspectors. Employees hired as food safety specialists are required to be a Certified Public Health Inspector (Canada) - CPHI(C), a professional designation awarded by the Canadian Institute of Public Health Inspectors. Food safety technicians are required to have a diploma in Animal or Food Science Technology or equivalent training and experience. We were informed that, in 2000, all of the Department's food safety inspectors successfully achieved certification as a Food Safety Professional (CFSP) through the American National Environmental Health Association. They also successfully completed an internationally recognized food service management program (ServSafe) which emphasizes current food safety practices within the industry.

6.54 *Training* - New employees receive training in job responsibilities through accompanying an experienced inspector on a variety of inspections. This "on-the-job" training generally takes several weeks. Depending on qualifications and experience, new employees carry out initial unaccompanied inspections in establishments rated as low risk.

6.55 To maintain the CFSP certification, inspectors are required to pursue related professional development and training. Credential renewal is every two years from the date of certification. In the past two years, the Department has provided an annual two-day training session to present specific food safety topics to staff. Management has expressed commitment to providing training opportunities for staff to fulfill recertification requirements, as well as to tracking staff participation in training sessions.

6.56 *Performance monitoring* - For purposes of food safety, the Province is divided into three regions, each under the responsibility of a Regional Manager. Regional Managers report directly to the Section Manager (see Exhibit 6.3 on page 115). Inspectors are located at the three regional offices, as well as seven field offices throughout the Province.

6.57 Management assesses the performance of new employees through close supervision and review of inspection documents. As well, the Department has implemented the performance appraisal system developed for all employees of government. The Regional Managers evaluate the performance of inspectors annually, comparing individual performance against goals established at the beginning of the year. The appraisal process identifies areas of strength, as well as concerns which need to be addressed over the next evaluation period.

6.58 The Department does not have a specific conflict of interest policy for inspectors. However, all staff are expected to comply with government's Code of Conduct for Civil Servants and inspectors are bound by the code of ethics of their professional associations. Management relies on supervision and the professionalism of staff to ensure inspectors remain unbiased and objective in the performance of duties. If a complaint is made against an inspector it is investigated immediately by the Regional Manager.

6.59 Ongoing monitoring of inspectors is carried out through regular, daily and weekly contact, periodic staff meetings, and monthly reviews of activity, inspection and expense reports. In addition, the Regional Managers, on an annual or bi-annual basis, accompany each inspector on an inspection to assess techniques and coverage.

6.60 The Department has not established specific performance standards for inspectors, such as time to complete an inspection or number of inspections in a period. Management indicated that they use informal inspection guidelines to regularly monitor the performance of inspectors.

6.61 With respect to government programs which include routine inspections, we believe that control can be strengthened by rotating individual inspectors throughout the population of entities being inspected. Such a practice would discourage biased treatment of an organization by an inspector because the inspection results may be subject to review by another inspector at a later date. Other than for the meat safety program, there is little routine rotation of food safety inspectors in the Department. We agree with management's assessment of the difficulty of rotating inspectors serving rural areas because of the small number of staff and large geographic areas involved. However, we recommended that the Department consider a system of inspector rotation for the urban areas where it may be practical.

6.62 At the time of our audit, there was limited monitoring of meat plant inspectors. Through the scheduling and rotating of inspectors among the meat plants and weekly statistical reporting by the inspectors, management gains some assurance that inspections are being done properly. However, detailed inspection reports are filed at the respective meat plants, and copies are not regularly submitted to the regional or field offices. If an issue arises, the Section Manager may visit the meat plant and review the file. The position of Senior Meat Inspector was created in 2000 and assigned responsibility for development of a code of practice for meat inspections and a professional development plan for inspectors.

6.63 *Policies* - The Department has developed policies and guidelines to assist inspectors in the performance of their responsibilities. Policies and guidelines are not maintained in a formal manual, but are distributed to staff as developed.

6.64 Preliminary work on developing an orientation manual for new staff was done in early 2000. A number of available documents and resources were identified, with some amendments required.

A manual has been developed in one of the regions which includes policies and guidelines as well as other food safety information. We recommended that a formal policy and procedures manual be developed for the whole Section to ensure policies and guidelines remain current and readily available.

6.65 We identified areas where more formal policies should be developed. These include detailed guidelines for food seizures, appropriate time frames for compliance, and detailed procedures for initiating prosecutions.

Accountability

6.66 The accountability process should provide sufficient, appropriate, understandable and timely information on areas of assigned responsibilities. The Food Safety Section has a relatively small number of staff, and for this reason the accountability process within the Section involves a high degree of personal contact. There is frequent interaction among the Regional Managers and between the Regional Managers and the Section Manager. There are monthly or bi-monthly meetings to address operational and policy issues. The Section Manager meets regularly with the Division Director on specific issues and also prepares briefing notes for the Deputy Minister and Minister, when required. In addition, the Section Manager reports monthly, through the Division Director, to senior management of the Department on activities of the Section.

6.67 The Department prepares an annual report. The most recent annual report, tabled with the House of Assembly in April 2000, was for the year ended March 31, 1999. We believe 12 months is too long of a delay for reporting on the performance of the Department. We recommended that the annual report be prepared and tabled on a more timely basis. A more detailed annual report on the activities of the Division was also prepared and published for the same year. However, the annual report for the year ended March 31, 2000 was not completed because the Department had since been amalgamated and restructured.

6.68 We observed that the annual reports lack substantive information on performance and do not fulfill their potential as accountability documents. The Division's report contains its mandate, commentary on programs, and general information on the Section's activities. It does not include specific objectives, actions the Section will take to meet the objectives, and accomplishments in meeting the objectives. Some statistical information is provided, but it does not focus on the Division's performance in meetings its goals and objectives.

6.69 The Section prepared a detailed business plan for the year ended March 31, 2000 which outlined expectations, activities related to achieving the outcomes and some outcome measures. However, there has been no formal reporting on the progress made in achieving the outcomes identified. The Section did not prepare a detailed business plan for the year ended March 31, 2001 due to uncertainty involving its future structure and responsibilities, but it subsequently drafted one for 2001-02 when its future was more clear.

6.70 The Section maintains a database of information on food service establishment inspections performed. The database contains inspection information from the past three years, and is used to generate a number of statistics and reports. However, information on certain of the performance measures identified in the business plan is not currently being collected or reported. We recommended continued development of performance measures, collection of supporting information and better reporting on performance.

6.71 Management indicated that they are confident that the food safety program is effective and having a positive impact. The Province has a program dedicated to food safety, whereas in most other provinces inspectors also have responsibilities in other areas, such as water and sanitation.

Staff morale is high, staff are well trained and the Section has had good success to date in meeting its inspection goals. In April 2000, the food safety staff were the recipients of the Year 2000 Alexander Officer Award, a national award presented by the Canadian Institute of Public Health Inspectors for outstanding achievement in public health and food safety. Factors cited were the Department's development of training courses and the high number of food service workers and volunteers trained each year. We acknowledge that these factors contribute to a successful food safety system. We recommended that factors relating to the outcomes of a safe food system also be determined and monitored to provide additional assurances that the Section is meeting its goals.

CONCLUDING REMARKS

6.72 There are good processes for developing and promulgating food safety standards in the Province. Monitoring, inspection and other activities as they relate to the food safety requirements of legislation, regulations and/or policy are satisfactory, but there needs to be more attention given to the accuracy and completeness of inspection files and to the inspection and licensing of day care centres which serve food.

6.73 Systems for the enforcement of Provincial legislation and regulations related to food safety are satisfactory. There are good processes to ensure the competency of personnel involved in food safety inspections, enforcement and training activities. The Section's internal accountability framework is satisfactory, but improvements could be made to the Department's external reporting on its performance with respect to food safety.

Exhibit 6.1

EXCERPT FROM 1997 REPORT OF THE CANADIAN FOOD INSPECTION SYSTEM IMPLEMENTATION GROUP[1]

Recommendations and Report to Ministers

The purpose of this report is to recommend to all Ministers involved in food inspection at all levels of government in Canada, the means of establishing a Canadian food inspection system that respects the jurisdictions of all governments.

* * *

Moving towards a more integrated Canadian food inspection system will take both the concerted effort of all parties and a variety of steps over time. This report suggests that building on the work undertaken in the last two years by the CFIS Implementation Group, three broad goals are essential to achieving the vision of an integrated Canadian food inspection system. These include:

1. *Harmonized Standards;*
2. *Integrated Inspection Delivery Systems;*
3. *An Inter-jurisdictional Forum For Harmonizing Standards, Procedures and Methods for Food Inspection.*

These goals are all equally important. They are closely related and will each be essential in moving toward a truly efficient and effective Canadian system of food inspection. Their underlying premise is a recognition of the fact that there is a role for all levels of government, and that the challenge is to find better ways of partnering and coordinating activities.

* * *

Recommended Actions (Recommendations are summarized. Additional detail is provided in report.)

1. *Implement Harmonized Standards (Sector-Specific Regulations & Codes)*
2. *Support Development of a Common Legislative Base and Core Regulatory Base*
3. *Restructure Food Inspection Systems Within Jurisdictions*
4. *Develop Cooperative Mechanisms*
5. *Recognize CFISIG as an Ongoing Forum*
6. *Ensure CFISIG has the Necessary Resources to Deliver on its Work Plan*

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1. Continuing Progress Toward a Canadian Food Inspection System
June 1997, Canadian Food Inspection System Implementation Group

Exhibit 6.2

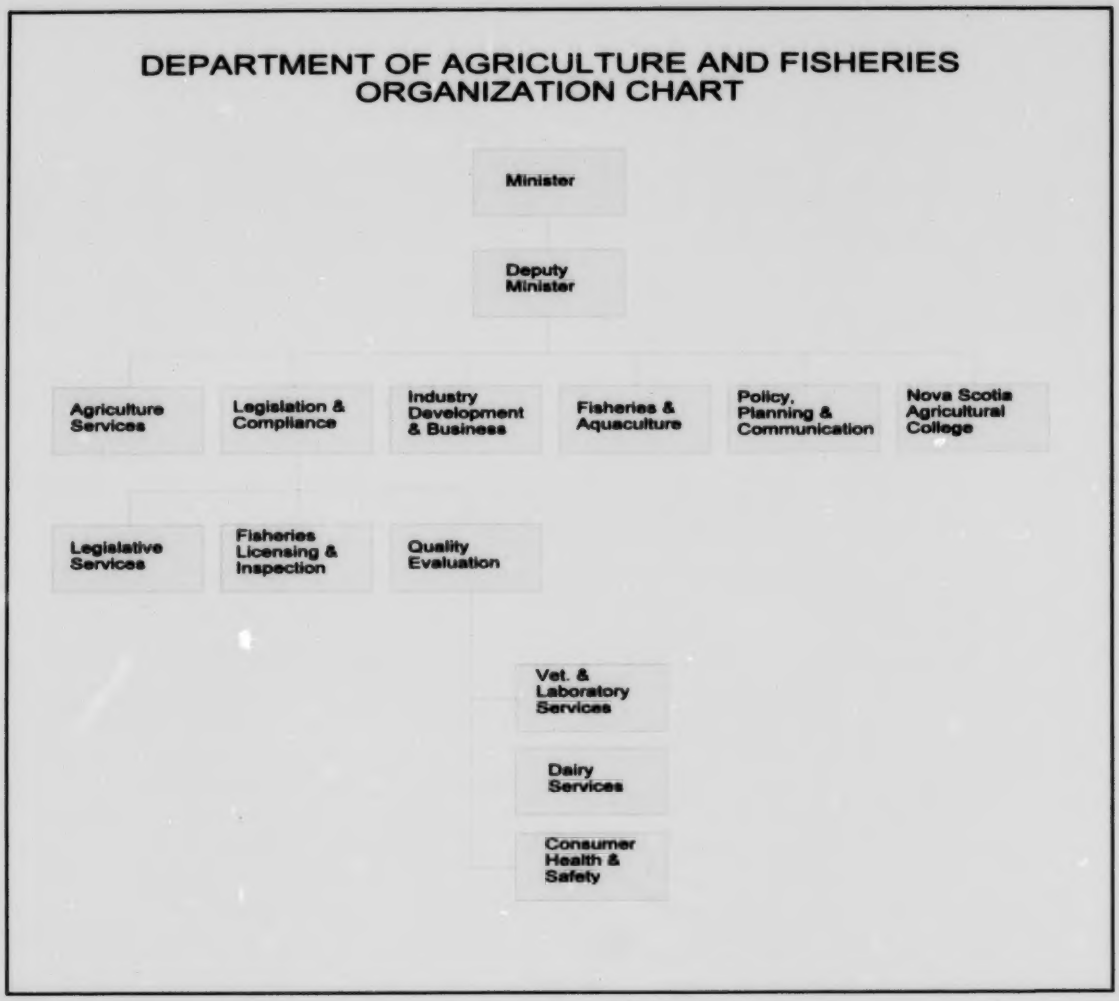
DEPARTMENT OF AGRICULTURE AND FISHERIES
ORGANIZATION CHART
Minister
Deputy Minister
Agriculture Services
Legislation & Compliance
Industry Development & Business
Fisheries & Aquaculture
Policy, Planning & Communication
Nova Scotia Agricultural College
Legislative Services
Fisheries Licensing & Inspection
Quality Evaluation
Vet. & Laboratory Services
Dairy Services
Consumer Health & Safety

Exhibit 6.3

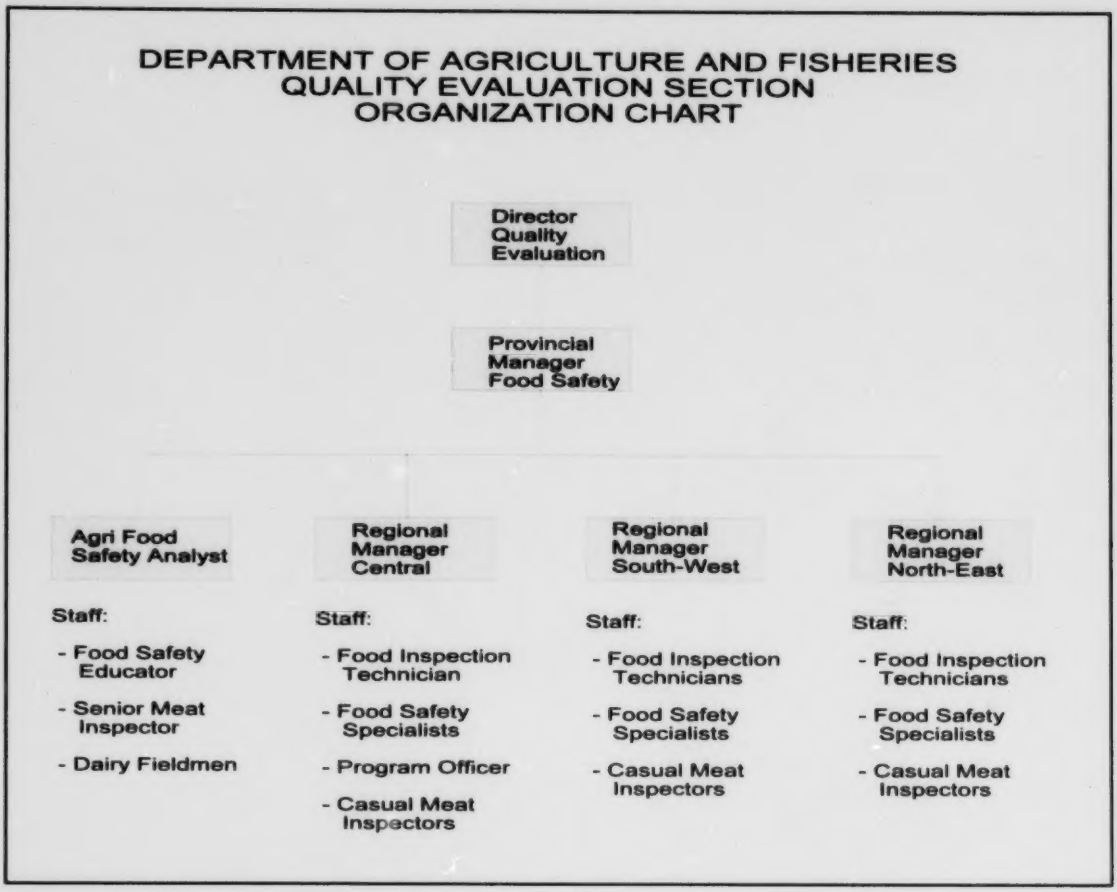
DEPARTMENT OF AGRICULTURE AND FISHERIES
QUALITY EVALUATION SECTION
ORGANIZATION CHART
Director Quality Evaluation
Provincial Manager Food Safety
Agri Food Safety Analyst
Staff:
- Food Safety Educator
- Senior Meat Inspector
- Dairy Fieldmen
Regional Manager Central
Staff:
- Food Inspection Technician
- Food Safety Specialists
- Program Officer
- Casual Meat Inspectors
Regional Manager South-West
Staff:
- Food Inspection Technicians
- Food Safety Specialists
- Casual Meat Inspectors
Regional Manager North-East
Staff:
- Food Inspection Technicians
- Food Safety Specialists
- Casual Meat Inspectors

Exhibit 6.4

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed tests and procedures.

The following criteria were used in our audit of the Nova Scotia food safety system.

- *Standards* - There should be sufficient knowledge to determine where safety standards are in need of development or change. There should be systems and procedures in place to develop appropriate standards on a timely basis. There should be ongoing public education and promotion of safety standards.

- *Compliance with legislation* - There should be compliance with applicable provisions of Provincial food safety legislation and regulations. Policies should be consistent with legislation and regulations. There should be a process which enables management to know whether or not key provisions of legislation and regulations are being complied with. There should be a system to ensure that inspections are carried out on a regular and timely basis. There should be a system to follow up on the implementation of inspection orders.

- *Enforcement of the Act and regulations* - There should be a system to ensure Provincial legislation and regulations are appropriately enforced. Powers, roles and responsibility for enforcement of legislation and regulations should be clear.

- *Competency* - Personnel should have appropriate education and qualifications to administer the laws for which they are responsible. Policies should reflect current legislative requirements for food safety standards. Changes to legislation, regulations and policies should be communicated to personnel on a timely basis. There should be a process to ensure personnel receive ongoing training in food safety standards/technologies and other relevant areas. There should be a system of regular evaluation of staff competency and performance, with corrective actions taken when deficiencies are observed.

- *Accountability* - There should be adequate systems and controls to ensure the completeness, accuracy and timeliness of information reported. There should be relevant and timely reporting to inform the Minister and House of Assembly of performance with respect to food safety mandates. Government should know whether safety standards are being implemented and having a positive impact.

Exhibit 6.5

INFORMATION ON THE CANADIAN PARTNERSHIP FOR CONSUMER FOOD SAFETY EDUCATION[1]

The goal of the Canadian Partnership for Consumer Food Safety Education is: "To contribute to the reduction of microbial foodborne illness in Canada by increasing awareness of safe food handling practices through the coordination and delivery of food safety education programs focussed on the consumer."

* * *

Formation of the Partnership

Industry, consumer and government organizations have been working separately for many years to improve consumer understanding of foodborne illness and the measures that can be taken to decrease the risks of the illness. However, in December, 1997, communication between a number of industry, consumer and government organizations resulted in the formation of the Canadian Partnership for Consumer Food Safety Education, the goal of which is to develop and implement a comprehensive food safety education campaign aimed at consumers.

Current membership totals over 20 industry, consumer, health and environmental organizations, and the federal and provincial government organizations who are concerned with food safety. In April, 1998 the Partnership incorporated itself as a non-profit organization committed to reducing foodborne illness in Canada by increasing awareness of safe food handling practices through the coordination and delivery of food safety education programs focused on the consumer.

* * *

The key messages the Partnership will communicate to consumers are:

CLEAN: Wash hands and surfaces often;

CHILL: Refrigerate promptly;

COOK: Cook to proper temperature; and

SEPARATE: Don't cross-contaminate.

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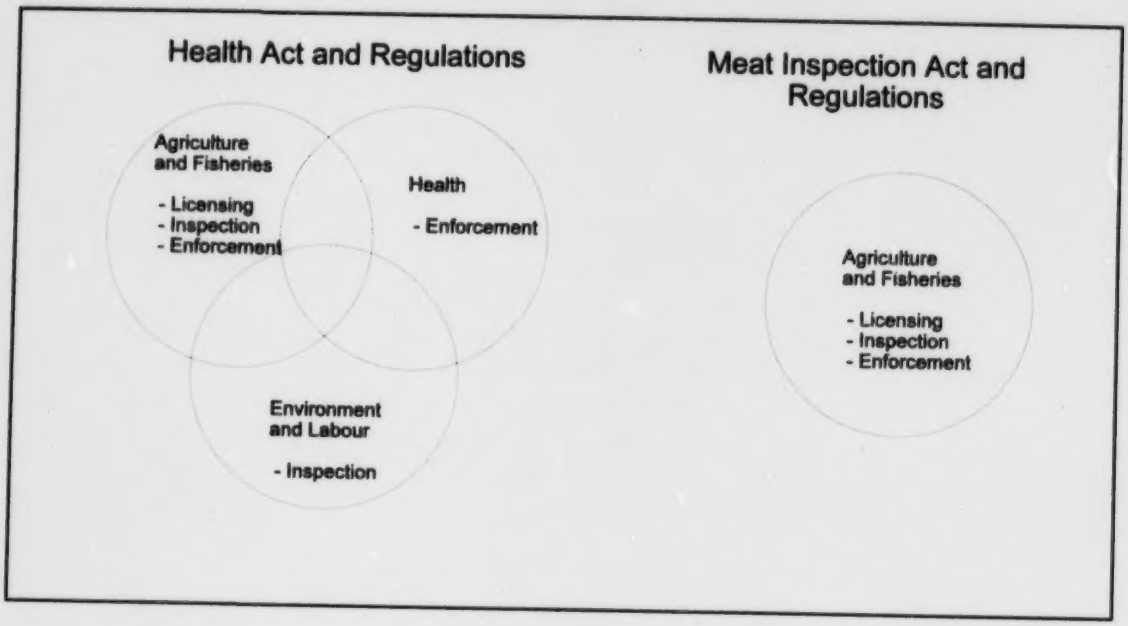
1. From the website maintained by the Canadian Partnership For Food Safety Education (www.canfightbac.org)

Exhibit 6.6

SHARED RESPONSIBILITIES FOR FOOD SAFETY



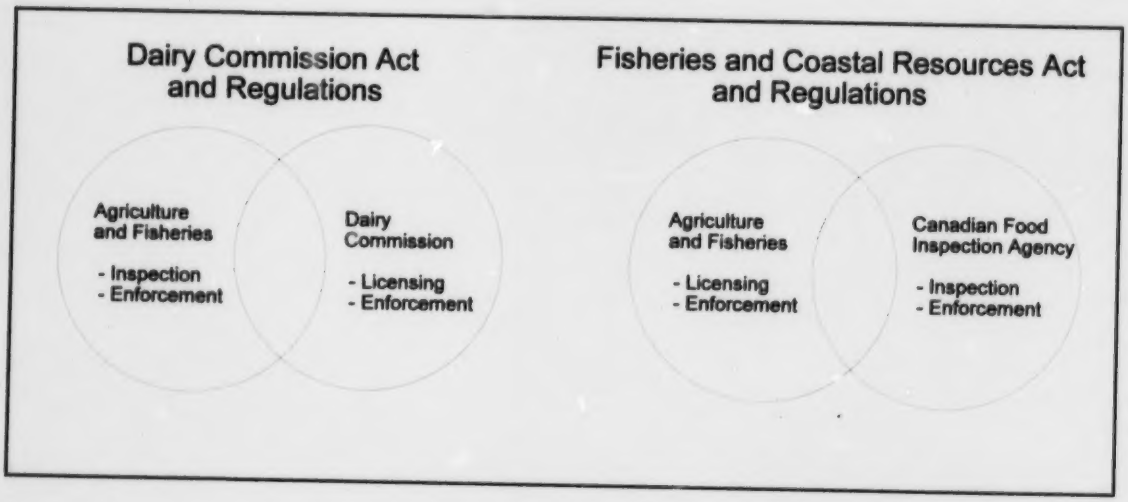


Exhibit 6.7

DEPARTMENT OF AGRICULTURE AND FISHERIES
FOOD SERVICE ESTABLISHMENT PRIORITY ANALYSIS

The determination of risk relating to food service establishments is based on the rating of four factors.

7. **Food Property Risks** - risks common to specific foods or groups of foods that are known to contribute to the likelihood of food-borne illness. Various levels of risk are associated with specific foods (5 to 40 assessment points).

8. **Population at Risk - Typical Patronage** - specific populations are more likely to develop food-borne illness based on age and environment (10 to 30 assessment points).

9. **Food Service Establishment History** - history of complaints against the establishment and results of routine inspections in previous year (5 to 30 assessment points).

10. **Food Service Establishment Operational Risks** - various processes and/or procedures contribute more often to outbreaks of food-borne illness than others. Consider food process (hazardous foods), sufficient equipment and training of management and staff (10 to 140 assessment points).

Risk Analysis Score	Risk Category	Minimum Number of Inspections
Greater than 150	High risk establishment	3 per year
100 to 150	Moderate risk establishment	2 per year
Less than 100	Low risk establishment	1 per year

DEPARTMENT OF AGRICULTURE AND FISHERIES' RESPONSE

The management staff of the Department of Agriculture and Fisheries, Legislation and Compliance Services Branch have reviewed the Food Safety audit conducted by your staff during 2001. Our management staff agrees with the findings reported within the audit. In response to the audit findings a number of regulatory and program changes have been initiated. The following points summarize the Department's response to the findings found in the Results in Brief section of the audit report.

(1) The Department is proposing to government, new regulations which will provide for one consistent food safety regulation across the province. This proposal will eliminate the inconsistencies at the municipal level currently experienced.

(2) The proposed regulatory initiative includes an exemption for churches, fire departments and other volunteer organizations from the requirements of the regulations. The Department food safety staff will continue to encourage members of volunteer organizations to attend foodhandler training courses.

(3) Discussion is currently underway with the Nova Scotia Department of Environment and Labour concerning daycare inspections. It is anticipated agreement on one agency or the other being totally responsible for inspection and licensing of daycares.

(4) The Food Safety Section has completed a review of the current file documentation. Although errors in the database may occur these are a result of data entry not inspection inaccuracies. A quality assurance program to improve the transfer of information to the database will be initiated in 2002.

(5) The Department has initiated a review of resources and required inspection frequency. It will be necessary to develop a strategy to meet the future inspection requirements.

(6) The Department is pleased the Auditor's Report recognized the good system for ensuring competency of food safety staff. The Department is committed to continuing with internal and external education training for staff.

(7) Rotation of inspectors between different geographic districts will be considered and implemented when deemed necessary.

(8) The Department agrees performance reporting should be improved and will be addressing this issue in 2002.

7.

EDUCATION - PLANNING FOR SCHOOL CAPITAL EXPENDITURES

BACKGROUND

7.1 Since 1992, the School Capital Construction Committee (SCCC) has recommended school capital construction and renovation projects for approval by Executive Council. The 1997 Report of the Committee recommended 31 new school projects, five major addition/alteration projects and 57 repair/renovation projects. Over the next three years activity was concentrated primarily on the construction of new schools through the public-private partnership (P3) process at a cost now estimated to exceed $350 million. The number of capital addition/alteration and repair/renovation projects carried out was fewer than planned because funding was not available.

7.2 Since the 1997 SCCC Report was issued, Executive Council approved the construction of 18 new schools with an estimated cost of $229.6 million. These schools will not be constructed through the P3 process as the Province has made a commitment to return to more traditional methods of designing, constructing and financing schools. Exhibit 7.1 summarizes school capital expenditures (excluding P3) from 1997-98 to 2001-02.

7.3 The School Capital Construction Committee was inactive following release of its 1997 Report. The Committee was reestablished in 2000 and in its December 2000 Report draft recommended approval of 85 school capital projects with an estimated cost of $348.2 million. The 2000 Report has not yet been approved by Executive Council. See Exhibit 7.2 for a summary of recommendations, approvals and financial information.

7.4 Prior to this audit, our most recent audit of school capital construction was a 1997 review of Public-Private Partnerships (P3's) for School Construction which was followed up in our 1998 and 1999 Reports (see page 78 of 1997 Report of the Auditor General, page 85 of 1998 Report, and page 64 of 1999 Report).

RESULTS IN BRIEF

7.5 The following are our principal observations from this audit.

- The Department of Education's process for school capital planning and project approval, as described to us by management, appears adequate. Some aspects of the process, such as evaluation of individual projects against criteria, have not been well documented. For the process to be transparent, the Department of Education should document major steps such as evaluation of potential projects against pre-established criteria.

- The School Capital Construction Committee presented its draft Report to Executive Council on June 12, 2001. The Report has not yet been approved as Executive Council required further information from the Committee.

- The Department established the space requirements for seven schools contracted out in October 2000 without benefit of a complete set of space programming guidelines.

Department staff used a number of documented sources, professional judgement and experience when drafting the school space requirements. We recommend the Department maintain updated space programming guidelines.

- The January 12, 2001 Memorandum of Understanding provides a good accountability framework for the interdepartmental relationship between the Departments of Education and Transportation and Public Works for the school capital construction process. Due to the interrelatedness of the roles and responsibilities described in the MOU, a post-mortem assessment of the previous year's projects needs to be conducted annually and the MOU adjusted, if necessary, to ensure continued operational effectiveness.

- Status reports on capital construction projects are essential for the Department of Education to effectively manage cash flow and to ensure that projects are being constructed within approved budgets. The Department of Transportation and Public Works should ensure that formal status reports are both timely and complete.

- Internal Department of Education reports indicate that a serious deferred maintenance problem currently exists in Nova Scotia schools. To ensure that this problem does not escalate further, the Department of Education should begin to monitor Regional School Board spending on preventive maintenance to ensure that adequate funds are being directed toward this area and spent in the most effective manner.

AUDIT SCOPE

7.6 Our audit included a review of the roles, responsibilities, systems and processes controlling school capital projects administered by the Department of Education. We did not examine the project management functions of the Department of Transportation and Public Works or visit Regional School Boards.

7.7 We tested the review and approval process for a small sample of projects recommended by the School Capital Construction Committee in its December 2000 Report draft. We examined the monitoring and control of actual expenditures for capital addition, renovation and repair projects during 1997 to 2000. We also examined the development of the Department's 2001-02 annual capital budget. We did not examine project approval or monitoring and control processes for P3 projects.

7.8 The objectives of this assignment were to:

- review school capital planning systems and processes, including the processes for establishing cost estimates and budgets;

- assess the process for evaluating and approving school capital projects;

- review and assess the Department's annual capital budgeting process;

- review and assess the reporting, monitoring and control over individual capital projects and over the Department's annual capital budget; and

- assess accountability reporting by school boards, the Department and others to provide for due regard for economy and efficiency in relation to capital expenditures and capital assets.

7.9 The audit criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants' *Accounting Handbook* and Criteria of Control Board's *Guidance on Control,* Office of the Auditor General of Canada's *Audit Guide, Financial Management Capability Model* and *Modernizing Accountability Practices in the Public Sector,* and Office of the Provincial Auditor of Ontario's *1998 Special Report on Accountability and Value for Money - Acquisition and Management of Elementary and Secondary School Facilities.*

PRINCIPAL FINDINGS

Setting Priorities for School Construction

7.10 *Long-term capital plans* - The Province's framework for recommending school capital projects is based on the School Capital Construction Committee process in the Department of Education. This Committee was established in 1992.

7.11 The Committee was to prepare an annual report recommending a prioritized program of new capital construction, addition/alteration, and repair/renovation projects. The Committee last prepared a report in 1997. Since that time, the process was held in abeyance as there was a significant level of activity with school construction projects built under the public-private partnership process.

7.12 The SCCC Report, and the projects recommended, form the basis for the Province's long-term capital plan, or construction program, for schools. The projects on the plan require approval by Executive Council prior to being recommended for funding in a given year by the Tangible Capital Asset Prioritization Committee which is described in Chapter 4 of this Report.

7.13 *Executive Council approvals* - On June 29, 2000, without benefit of the SCCC process and recommendations, Executive Council approved the construction of 17 schools over a four-year period. The approval for the construction of one school was subsequently rescinded. The estimated cost of construction for the remaining 16 schools was $191.3 million. Further approvals of two additional schools brought the estimated cost of construction to $229.6 million for the 18 schools. Seven of these schools are now either completed or near completion as the contracts were tendered and awarded in the fall of 2000. See Exhibit 7.2 for a historical summary of Executive Council approvals for school capital construction.

7.14 We have been advised the construction of these 18 schools had been under consideration for some time by senior Department management who are no longer with the Department. Current Department management have not been able to provide documentation describing the rationale for recommending these projects or indicating criteria for evaluating project proposals. We have been advised these projects were likely recommended for one of three reasons - the recent Supreme Court decision reinforcing the right of Acadian-entitled students to be educated in a French only environment required new schools to be built in certain areas; project plans were now more firmly established for schools first proposed in 1997; and environmental conditions at certain schools were now beyond the point of remediation. There were delays in requesting Executive Council approval as the P3 process was being reviewed by government.

7.15 *2000 draft Report of the School Capital Construction Committee* - When approving the 18 schools described in paragraph 7.13, Executive Council requested that the School Capital Construction Committee review school capital requirements and prepare a report for government's consideration for December 2000. The Report was to contain a revised list of school capital construction projects and recommendations on a long-term policy to govern selection and funding of capital projects.

7.16 *2000 SCCC process* - In September 2000, each Regional School Board was requested to prepare a Capital Construction Report containing prioritized lists of new construction and renovation/upgrade projects. The total value of these requests was $655 million of which $348.2 million was recommended by the SCCC. The Boards were to evaluate and prioritize project requests using the criteria provided by the SCCC. The SCCC would then evaluate all Regional School Board requests using a more global Provincial perspective. These criteria were first developed when the SCCC was established in 1992 and have been refined over the years. See Exhibit 7.3 on page 131 for a list of the criteria. As a group, Committee members visited the higher priority projects in November and early December 2000. During these visits, notes were taken for future reference by Committee members. We reviewed these notes and found observations on the condition of the facility visited and its ability to provide suitable program space for the delivery of the school program.

7.17 The selection process, as described to us by Department of Education management, appears adequate but due to a lack of documentation we cannot conclude that the process was used by the Committee in producing the December 2000 Report. We were not provided with documentation showing the evaluation of each project against the pre-determined criteria or the ranking of projects based on this evaluation. Department of Education management advised us that Committee discussions focused on the ranking of projects, and that the detailed evaluation against criteria was not documented because of the short time frame available. We recommend the Committee ensure this important process is transparent by fully documenting the evaluation and selection process.

7.18 *Status of draft report* - The Committee presented its draft Report to Executive Council on June 12, 2001. The Report has not yet been approved as Executive Council requires further information from the Committee. The Department has established a process to obtain this information. The draft Report contains a prioritized list of school capital construction projects excluding the 18 schools previously approved by Executive Council.

7.19 As requested by Executive Council, the Committee recommended a long-term policy to govern selection and funding of capital projects. The recommended policy is basically the same as the current one, except that the School Capital Construction Committee should be provided with more detailed, accurate and timely information on school capital requirements. The Committee suggested enhanced information could be provided through:

- establishing a committee to
  - develop standards to evaluate existing school infrastructure and its potential to provide a healthy, safe and efficient learning and working environment;
  - study school utilization and work with Regional School Boards on strategies to use the existing school infrastructure as efficiently and effectively as possible; and
  - ensure a profile of existing facilities is developed.
- developing and funding a program to address the deficiencies in the major building components;
- giving the SCCC the mandate to begin the school capital review in April to allow the process to generate more comprehensive information on school capital projects including more involved evaluations of facilities and better cost analysis.

7.20 *2001-02 Estimates* - The Department was assigned a budget allocation of $19.0 million in 2001-02 for addition/alteration, repair/renovation and replacement of defective joists projects. As the SCCC Report had not been approved, the Department was not able to proceed with the projects recommended in the Report. This funding was allocated amongst Regional School Boards based on enrolments. Department management approved the projects submitted based on a combination of the Board-assigned priority and available funding. We were not provided with documentation supporting this process, but we have been advised that the prioritized list of projects recommended to Executive Council for approval focused on building envelope and health and safety concerns.

School Programming and Design Standards

7.21 On May 9, 2000, the Priorities and Planning Committee (subsequently restructured as Treasury and Policy Board) approved in principle design changes for schools being built in the future. These changes were expected to reduce the overall cost of new school construction while still allowing for delivery of the full school program. On June 29, 2000, these design changes were authorized for use when the 17 schools were approved for construction.

7.22 *School programming* - New school projects, prior to design and construction phases, must be programmed. This involves an assessment of the enrolments and the grade configuration of the student population. These factors determine the number of regular classrooms and the number and type of special classrooms needed (e.g. labs, learning resources). This results in an inventory of space for the program. The building total square footage is determined by applying a historical gross-to-net ratio to the educational program space.

7.23 Depending upon how the project is managed, programming a school is the responsibility of either the Department of Education or a contracted professional. In the case of the seven schools contracted in October 2000, this was the responsibility of the Department of Education. The Department programmed these schools without benefit of a complete, documented set of program specifications. Department staff used a number of documented sources, professional judgement and experience when drafting the school space allocation program. We recommend the Department maintain updated program specifications.

7.24 The final school space allocation program is determined in consultation with the School Steering Team. Adjustments may be made, but the total educational program area is to remain constant. The school programmer requests approval from the Deputy Minister for any significant increases in educational program area.

7.25 We examined a sample of school space allocation programs to ensure the school was programmed in accordance with program specifications. Our review did not reveal any significant discrepancies.

7.26 *Design standards* - A School Design Requirements Manual is maintained by the Department of Transportation and Pubic Works. It was developed with input from the Department of Education, Regional School Boards and private sector professionals. It identifies the minimum acceptable design and construction standards for schools built in Nova Scotia.

7.27 This Manual forms part of the tender documents package provided to bidders for projects tendered by the Department of Transportation and Public Works. Transportation is responsible to ensure these design standards are complied with.

Budgets for School Construction Projects

7.28 *School budgets* - When recommending a school project for approval by Executive Council, the Department estimates a cost for the project. The estimate is based on the same two factors used to determine the school space allocation program - proposed enrolment and grade level configuration. The square footage is first determined through use of historical rates of square footage per proposed enrolment, then a historical rate of cost per square foot is applied.

7.29 The estimated cost will subsequently be updated if either of the two factors, enrolment or grade level configuration, changes. This estimated cost is carried through to the funding submission to the Tangible Capital Asset Prioritization Committee.

7.30 The estimated costs of construction for the 18 schools approved by Executive Council were determined by senior Department management who are no longer with the Department. Current management has not been able to provide documentation showing how the estimated costs were determined. They have attempted to gain assurance as to the reasonableness of the costs by applying the methodology currently used to estimate costs. There are discrepancies for some schools, but the Department has gained some assurance that the estimated costs, in total, are reasonable.

7.31 Following programming of the school and subsequent tendering, the Department of Transportation and Public Works develops a detailed budget for the project within the funding approved. The detailed budget includes contingencies related to contracts. This is the budget against which actual costs are monitored.

7.32 Not all of the 18 schools approved by Executive Council have been tendered. As with P3 schools, contracts for these schools are being tendered in bundles as the Department believes this provides cost savings for the Province. For the seven schools contracted out in October 2000, as a bundle, the Department is forecasting actual expenditures will not exceed the cost estimate.

Roles of Departments of Education and Transportation and Public Works

7.33 *Background* - During the 2000-01 fiscal year, the Province conducted a review of the existing school construction and renovation process which identified a number of shortcomings. As a result of this review, a decision was made to consolidate the responsibility for educational school programming in the Department of Education and the responsibility for the design, construction, and procurement of all future schools with the Department of Transportation and Public Works. A new working relationship was to be developed that recognized the Department of Education (and ultimately the Regional School Boards and the community) as the client, and the Department of Transportation and Public Works as the service provider.

7.34 *Memorandum of Understanding* - On January 12, 2001 a Memorandum of Understanding (MOU) between the Departments of Education and Transportation and Public Works was signed by the respective Deputy Ministers. The intention of the MOU was to confirm the new interdepartmental relationship, clearly define departmental roles, and outline the general service expectations for each department in the delivery of new and major renovated school facilities.

7.35 The MOU includes a section outlining the general roles and responsibilities of major stakeholders in the school capital construction process. The responsibility for establishing and managing budgets and acquiring funding from Executive Council rests with the Department of Education. The Department of Education is also responsible to determine program needs, in consultation with Regional School Boards, and ensure that the design of the school incorporates the identified needs. The Department of Transportation and Public Works is generally responsible to act as project manager for the design and construction phases of the projects. Regional School

Boards are responsible for the development of demographics and needs analysis in support of the educational requirements of the communities. Regional School Boards are also responsible for school maintenance, upgrades and operation.

7.36 The MOU provides a good description of the roles and responsibilities for the major stakeholders in school construction and should serve as a general framework to guide interdepartmental relationships between the Departments of Education and Transportation and Public Works. One of the problems with the current MOU is that the responsibilities of having a school built on time, within budget, meeting the needs of the intended users, and meeting contract specifications are split between departments. This can cause operational conflicts.

7.37 The approval of contract change orders related to unanticipated expenditures is an example of where these different responsibilities have led to operational problems and misunderstandings between departmental staff. The Department of Transportation and Public Works, as project manager, needs to approve and process change orders quickly so as not to delay the project. The Department of Education is often concerned that the change orders are adding expenditures to already tight budgets and in some cases have interpreted the contract details to have already included the items on the change orders.

7.38 Due to the significance of school construction expenditures, we recommend that the departments evaluate the interdepartmental working relationship on an annual basis with the goal of addressing potential problem areas and adjusting the MOU as required. We also recommend that contract details be clarified in the areas where interpretation problems have existed in the past.

7.39 *School construction & renovation status reporting* - One of the roles and responsibilities of the Department of Transportation and Public Works, as outlined in the MOU, is to provide periodic progress and cost reporting to the Department of Education. Subsequent to the signing of the MOU, the Department of Education provided detailed instructions to the Department of Transportation and Public Works requesting that status reports be supplied on a monthly basis starting in February 2001, for all school projects regardless of size or state.

7.40 As part of our audit, we conducted interviews with management of the Departments of Education and Transportation and Public Works focusing on status reporting for school construction projects. We also reviewed a sample of Department of Transportation and Public Works status reports for the month of August 2001. We noted from our interviews with Department of Education management that status reports were not being received from Department of Transportation and Public Works as requested, and that the reports did not contain all the required information. This was confirmed through our examination of the August 2001 status reports.

7.41 Department of Education management stated that the information to be included in the status reports is very important to effectively manage the cash flow and to ensure that school capital construction projects are completed within the approved budget. Department of Transportation and Public Works management agreed that formal status reporting has not always been provided as requested, but believe that through weekly meetings and other informal communications with Department of Education staff, Transportation communicates all significant issues relating to current projects. The Department of Transportation and Public Works is aware of the need for more accurate forecasting of the timing of expenditures for each project and is in the process of addressing this issue. We recommend that formal status reports on all school construction projects be prepared by Department of Transportation and Public Works as requested by Department of Education.

7.42 Included in the MOU is the requirement for a formal business plan to be prepared jointly by each stakeholder department for every school or bundle of schools being constructed. These business plans are currently not being drafted. Detailed business plans would be effective

operational tools to communicate expected operational results, construction schedules, projected cash flow needs, and other resource requirements. The business plans would provide a basis for control to hold both departments accountable for expected results. We recommend that business plans be prepared for all school construction projects as required by the MOU.

Accountability of School Boards

7.43 *Renovations and repairs* - For the 2001-02 fiscal year, Executive Council approved $19.0 million for specific renovations and repairs to existing schools. Project management was performed by the Regional School Boards. Department of Education established funding guidelines including requirements for accountability reporting. Based on discussions with Department of Education management, and our examination of a sample of status reports, accountability reports are being received as required.

7.44 *Preventive maintenance* - Section 64 (1) of the Education Act dictates that Regional School Boards are accountable to the Minister. Regional School Boards have property service responsibilities under section 64 (2) of the Education Act. In the past, funding provided to Regional School Boards had been targeted specifically for property services. In 1996, the Department of Education began to allocate funding on a global basis eliminating targeted funding.

7.45 Internal Department of Education reports prepared by staff indicate that there is currently a serious deferred maintenance problem in the Province's schools resulting from an inadequate level of spending on annual preventive maintenance. Although funding provided to Regional School Boards is not targeted for a specific use, the Department of Education expects that an adequate amount of the global funding will be spent on school preventive maintenance. An effective annual preventive maintenance program for schools has the potential to prolong the useful life of a school and reduce additional deferred maintenance costs in the future. Although the Regional School Boards are responsible for preventive maintenance, once a school deteriorates to the point where the school needs major renovations or replacement, this then becomes the responsibility of the Department of Education.

7.46 The Department of Education does not require reporting by Regional School Boards in respect to preventive maintenance expenditures on schools. The only required reporting is the assessment of capital needs for the School Capital Construction Committee. At the present time, the Department of Education does not assess expenditures made by Regional School Boards to ensure that an appropriate level of preventive maintenance work is being performed or whether the funds have been spent in the most effective manner. Reports on the condition of schools by Education Officers, as required under Section 142 (2) of the Education Act, are not being prepared. We recommend that the Department of Education monitor preventive maintenance spending by Regional School Boards on an ongoing basis.

7.47 Department of Education staff, along with property services management from the Regional School Boards, share school maintenance best practice information through regular meetings of the School Property Services Action Team. The Department of Education and the Regional School Boards also jointly purchased a computer software program to assist the Regional School Boards in work order scheduling and evaluating how preventive maintenance dollars would be most effectively spent. Department of Education management has stated that this software is in various stages of implementation at the Regional School Boards.

CONCLUDING REMARKS

7.48 Over the past four years, the Province has approved 49 school construction projects at an estimated cost of $580 million and the School Capital Construction Committee has recommended additional schools in its recent draft report. Our audit of the planning for this significant expenditure indicated there is a need to improve documentation of the prioritization and approval processes. In addition, we recommended improvements to the process for deciding on the specific facilities required in the new school once the program needs of the identified school population are known.

7.49 The Departments of Education and Transportation and Public Works play important roles in the school construction process. The roles, responsibilities and accountability requirements have been defined in a Memorandum of Understanding. Not all of the accountability requirements included in the Memorandum are currently being met, and we recommend improvements to the information flow between the two departments to ensure that both departments have the information required to perform their responsibilities.

7.50 There is currently a serious deferred maintenance problem with the Province's public schools. The severity of this problem makes it very important for the Department of Education to ensure a reasonable amount of the funding provided to Regional School Boards is directed at preventive maintenance and that those funds are spent in the most effective manner.

Exhibit 7.1

SCHOOL CAPITAL EXPENDITURES (EXCLUDING P3)
(UNAUDITED)

	1997-98	1998-99	1999-00	2000-01	2001-02 (Estimate)
New School Construction	$0	$0	$0	$ 5,320,657	$62,500,000
Additions & Alterations	7,431,760	15,900,651	12,451,383	15,122,483	1,030,000
Repairs & Renovations	14,655,943	4,399,650	9,487,384	9,752,208	22,970,000
Totals	$ 22,087,703	$ 20,300,301	$ 21,938,767	$30,195,348	$86,500,000

Note: Information provided by Department of Education and not audited by Office of the Auditor General.

Exhibit 7.2

SCHOOL CAPITAL CONSTRUCTION APPROVALS/RECOMMENDATIONS

	New School Construction (#)	Renovations/Repair and Additions/ Alterations (#)	Estimated Cost ($ millions)
SCCC 1997 Report	31	62	$350.0[3]
OIC 2000-359 (June 29, 2000)[1]	16	0	191.3
OIC 2000-417 (August 11, 2000)	0	2	14.0
OIC 2000-591 (November 17, 2000)	1	0	12.3
OIC 2001-243 (May 25, 2000)	1	0	26.0
OIC 2001-295 (June 22, 2001)	0	69	12.2
OIC 2001-365 (July 26, 2001)	0	81	6.8
Total School construction approved since Dec. 1997			**$612.6**
2000 SCCC Report[2]	12	73	$348.2

Note 1: Original OIC 2000-359 approved 17 new schools. Petit de Grat school was rescinded through OIC 2000-422 on August 24, 2000.

Note 2: The 2000 SCCC Report has not been approved by Executive Council.

Note 3: The SCCC Report estimated a lower cost based on fewer schools but the most recent forecast is $350 million for the schools actually constructed under public-private partnership arrangements.

Exhibit 7.3

SCCC PROJECT EVALUATION CRITERIA
FROM REPORT OF THE SCCC - DECEMBER 2000
(Appendix C, Pages 28-30)

In general, the criteria for deciding which school capital construction projects will be undertaken, fall into four broad categories:

(1)	Condition of (Existing) Buildings	30
(2)	Capacity	30
(3)	Core Programs and Courses	25
(4)	Efficiency	15

A maximum point value is assigned for each of the four categories totaling 100. In evaluating each project, the greater the need identified in each category, the greater the point value assigned that category. The review process involves repeated examination and ranking until such time as a definite list of projects, in order of numerical ranking and hence priority, is achieved - that is, the project with the greatest number of points would be the top priority.

The following criteria shall be used by the board to establish the requirements for a school capital project

1) Condition of Existing Buildings

The condition of existing buildings is also an important part of the decision-making process. The health and safety of children from an environmental and hygiene point of view, combined with their safety and comfort from a building structural and condition point of view, are as integral to the educational process as is much subject matter. As well, the integration of students with a full range of physical and mental abilities in our educational process necessitates the complete accessibility of schools and school premises. Aesthetics, quality and building atmosphere may be factors to be considered.

Factors considered by the committee when ranking projects under this criteria were those that required expenditures costing more than regular maintenance and repair procedures.

The condition ranking could be influenced by a lack of capacity which could cause a health and safety concern resulting from overcrowding. Schools that are not well equipped with regard to the foregoing will receive a high rating.

2) Capacity

The availability of space in a school, school sub-system or district to house the students who have a right to education is a critical factor. Generally, individual schools will have a design capacity or there will be other regulations or legislation which will place an upper limit on the number of students that can be housed in any one building. However, boards should seriously consider adjusting school boundaries to overcome overcrowding problems or to offer a more efficient and effective program of studies to students. This may not always be a popular decision to make but it might, taken in context, be the proper decision.

The capacity ranking could be influenced by a severe building condition problem which could result in the closure of a school and there are no alternate facilities available to accommodate the affected students.

3) Core Programs and Courses

This category addresses one basic question: Can the core program and courses be offered in the school, the sub-system, the district or in a (close proximity) neighbouring district? The PSP or other legislation should be cited in justification for this criteria.

If the answer to this question is affirmative, the project will get a very low rating unless there are mitigating circumstances such as linguistic considerations. If these needs cannot be met, the request will get a higher rating.

4) Other Efficiency Factors

Much of the foregoing touches on efficiency of operations. In some cases, for example, there may be a real cost benefit or cost avoidance in consolidating schools. Reducing the overall square footage of schools and/or reducing bussing costs should be considered here. Staff reductions or allocation as a result of consolidation is a significant efficiency.

By the same token, the program benefit may be more significant than the cost benefit but combined would create real and meaningful benefits. Program delivery options, such as correspondence, distance education technology, semestering and other efficiencies, could enhance the educational experience for a number of students while, at the same time, address our ever shrinking resources.

Projects that could benefit from these measures will be given greater numerical ranking.

8.

EDUCATION - SCHOOL BOOK BUREAU

BACKGROUND

8.1 The School Book Bureau (SBB) of the Department of Education is responsible for the ordering, financial administration, storing and distribution of Authorized Learning Resources (Learning Resources) approved by the Programs Division of the Department of Education for use in the public school system. Authorized Learning Resources consist of a variety of materials including text books, posters, maps, software, audio cassettes, videos, teacher guides and professional development resources.

8.2 Learning resources receive an evaluation for bias by the Programs Division of the Department before they are permitted for use within the school system. Additions or removals of learning materials from the Learning Resources list are approved by the Programs Division after undergoing an additional curriculum evaluation process. There are approximately 5,000 learning resources currently on the list.

8.3 Nova Scotia is divided into six Regional School Boards (RSBs) and one Provincial Acadian/Francophone Board. In 1999-2000 there were 466 schools in the Province with a student population of 158,205. In addition, there are private schools, schools on native reserves and learning centres within health care facilities.

8.4 Funding is provided within the Department's budget for the purchase of learning resources to a predetermined maximum referred to as the Learning Resource Credit. The Credit amounted to $7.6 million for the 2000-01 fiscal year. The Book Bureau oversees the financial administration of the Credit. Most of this funding is allocated to Regional School Boards with a small portion, approximately $95,000, provided to native schools, the IWK-Grace Health Centre and others. As of April 2000 the Credit is no longer available to private schools. School boards, allocate the Credit to individual schools within their jurisdictions.

8.5 Use of the Credit is regulated in several respects. For the 2000-01 fiscal year, up to 50% of the Credit was available to be used under the Directed Purchasing Program. This Program is described more fully in paragraph 8.15. The Programs Division manages the selection process for learning resources and the Book Bureau oversees the distribution and financial administration of the directed purchases. The remaining Credit is used by school boards and others to purchase learning resources from the Learning Resources List. Up to 5% of the Credit can be used to purchase material not on the List.

8.6 The Book Bureau also orders learning resources for parents, private schools and others. There is no markup on these learning resources. The Department estimates that purchases of this type would be approximately $300,000 annually. Customers pay by cash or cheque when placing orders. According to the Education Act, shipping and handling charges are incurred by the customer.

8.7 The Book Bureau processes approximately 300,000 learning resource items and 1400 guide orders through its warehouse operations annually which requires approximately 30 to 50 major distributions to schools throughout the Province. The Bureau employs six full-time personnel plus

a manager responsible for day-to-day operations. The manager reports to the Director of Financial Management at the Department of Education. The Book Bureau is located at 10 Acadia Street in Dartmouth.

8.8 Total net expenditures by the Department for learning resources on behalf of Regional School Boards and others during 2000-01 were approximately $7.3 million. Department management informed us that additional spending by Regional School Boards for learning resources in excess of this amount from other funding sources would not be significant. The Book Bureau incurred operating expenditures of $394,189 during the same period. Financial highlights for the Bureau for the last three fiscal years are detailed in Exhibit 8.1.

RESULTS IN BRIEF

8.9 The following are the principal observations from our audit.

- The Department indicated, based on a survey of suppliers, that the Bureau receives a purchase discount because of bulk ordering and shipping to one location.
- The Department recently initiated a program of directed purchasing for certain learning resources. There is evidence that this program has achieved additional savings by increasing bulk purchasing. Extended use of this method of procurement, where appropriate, should be explored by the Department.
- The procurement of learning resources should comply with the Government Procurement Policy or be supported by appropriate exemption documentation. The Department was unable to provide documentation supporting an exemption.
- The benefits expected from initiatives to improve operational effectiveness and efficiency, such as the new on-line ordering system now being implemented by the Bureau, should be quantified where applicable so that actual results can be evaluated against original expectations.
- Operational accountability and performance could be enhanced through the standard reporting of performance indicators and operational targets.
- We reviewed and tested the systems and controls over the processing of cheques and cash and the ordering, receiving, storing and shipping of learning resources and found no significant weaknesses. Policies and procedures should be documented where appropriate.

AUDIT SCOPE

8.10 The objectives of this assignment were to:

- assess systems and practices at the Bureau which provide for administration and accountability, and due regard for economy and efficiency;
- document, assess and test the systems and controls over the receipt, deposit and recording of proceeds from sales;

- document, assess and test the systems and controls over the ordering, receiving, storing and distribution of learning resources including the administration of the learning resource credit allocation; and

- assess policies, procedures and controls for the procurement of learning resources to determine whether they provide for due regard for economy and efficiency, and compliance with the Government Procurement Policy.

8.11 The following general criteria were used in our audit.

- There should be controls to ensure that all cash/cheques are immediately controlled to prevent loss/theft and are accurately and promptly recorded.

- There should be adequate controls over the ordering, storing, distribution and administration of learning resources.

- Procurement of learning resources should comply with the Government Procurement Policy.

- Performance should be monitored against targets and indicators identified in School Book Bureau objectives and plans.

- The School Book Bureau should establish, communicate and follow written policies and procedures for operational control.

- Alternate forms of service delivery and procurement should be investigated to ensure due regard for economy and efficiency in the ordering, storing, distribution and administration of learning resources.

8.12 Our approach consisted of interviews with Department and School Book Bureau staff and examination of planning, accountability, policies and procedures and other relevant documents. We reviewed the system of control over cash and cheque transactions and credit allocation orders and tested a small sample during the 2000-01 fiscal year to validate our understanding of system controls.

8.13 We reviewed the procurement process for learning resources and tested a small sample of transactions. However we did not examine the system for evaluating and approving additions and deletions to the Authorized Learning Resource list as part of this audit.

PRINCIPAL FINDINGS

Learning Resource Procurement

8.14 *Background* - Historically, the Authorized Learning Resources list may have contained several textbooks or other learning resources for a particular educational program. This approach provided school boards and classroom teachers with a degree of choice and flexibility in the selection of learning resources for students.

8.15 *Directed Purchasing Policy* - In 1999-2000, the Department initiated a new policy of directed purchasing for certain learning resources. The policy involves the identification and purchase by the Department's Programs Division of common learning resources for each student enrolled in a specific course or grade level. This initiative is funded by the allocation of up to 50% of the Learning Resource Credit. The Programs Division manages the selection process and the Book Bureau oversees the distribution and financial administration of the directed purchase. This

is a departure from historical practices where all expenditures from the Learning Resource Credit were controlled by the Regional School Boards.

8.16 The new policy was introduced for several reasons including the desire to achieve greater consistency in the resources used in teaching a curriculum, equal access to new learning resources throughout the Province, and to take advantage of savings through directed purchasing.

8.17 The Program Division identifies priorities for curriculum development and evaluates suitability for directed purchasing against established criteria. Department management informed us that not all courses and subjects are appropriate for directed purchasing. The directed purchasing policy has been targeted for priority areas such as Math, Science and Literacy which are mandatory subjects for all schools in the Province. Non-core programs are not eligible for directed purchasing because of small enrolments and non-standard program content. Learning resources procured through directed purchasing are reviewed by both a group of teacher representatives and a selection committee established by the Department's curriculum development professional staff. Each proposal is evaluated against a detailed list of criteria established by the Department.

8.18 We examined the procurement of grades 9 and 10 science text books under the directed purchasing policy. Based on price and demand information provided by management, the price of the textbook under directed purchasing was approximately 21% less than the average list price available previously, resulting in estimated savings of $265,000. The savings appear attributable to volume/bulk buying directed at a single supplier. Recently the Department entered into a joint procurement of math textbooks with the Atlantic Provinces Education Foundation. We understand that significant savings were realized from this initiative as well.

8.19 Although we recognize that directed purchasing may not be appropriate in all instances, we encourage the Department to continue to seek opportunities for savings through directed purchase arrangements.

8.20 *Compliance with the Government Procurement Policy* - Department management informed us that learning resource purchases by the Book Bureau are exempt from the Government Procurement Policy. However, the Department was not able to provide documentation supporting an exemption.

8.21 We have recommended that the Department obtain documentation supporting the learning resources exemption from the Procurement Policy.

8.22 We reviewed the procurement process used for the directed purchasing of grades 9 and 10 science textbooks. Although the process used was competitive in nature, the procurement was not publically tendered and not posted on the electronic public bid notice system as required by the Policy. We have recommended that Department management ensure the directed purchasing process complies with the Policy. Department management informed us that procedural changes will be made to ensure compliance with the Government Procurement Policy for future directed purchase transactions.

Operational Accountability and Performance

8.23 *Operations monitoring and reporting* - Annual business plans and monthly operational reports for the Book Bureau are prepared by the manager and submitted to the Director of Financial Management of the Department of Education for approval.

8.24 The business plans and operational reports could be enhanced through the standard reporting of performance indicators and operational targets. The monthly operational reports contain detailed

information on various aspects of Book Bureau operations but activities are not compared to prior year or expected levels of activity. We have recommended that performance indicators and operational targets be documented and included in the reporting to Department management.

8.25 We note that in 2000 the manager of the Book Bureau conducted an interprovincial survey of procurement practices for learning resources. Six provinces responded to the survey which provided information against which to benchmark Nova Scotia operations. Highlights of the survey responses are provided in Exhibit 8.2.

8.26 The manager of the Bureau also conducted a survey to gather information on the financial impact of ordering and shipping to one location and the policies and procedures of publishers. A summary of the survey respondents compiled by the manager indicate that cost savings are achieved through both bulk purchasing and shipping to one location. Management indicated that the survey was sent to publishers in March of 1999 with approximately 75 publishers responding.

8.27 *Operational improvement initiatives* - Management informed us that several new initiatives are underway to improve the effectiveness and efficiency of Book Bureau operations. The most significant of these was the development of an electronic on-line ordering system which was implemented in March 2001 at a cost of $76,000.

8.28 Although the new system promises increased efficiency and effectiveness for the Bureau's operations, at the time of writing this Report, management had not completed the process of quantifying the benefits and results expected from the system. Management has indicated that they plan to monitor user satisfaction through an Evaluation Framework Survey used during the pilot project.

8.29 We have recommended that management quantify expected benefits and outcomes from new operational initiatives, where possible, and implement an evaluation process to help ensure expected benefits are achieved.

Systems and Controls

8.30 We reviewed and tested the control systems for the receipt, recording and deposit of cheques and cash and the ordering, receiving, storing and shipping of learning resources. We found no significant weaknesses during our audit although some system policies and procedures are not documented in the Department of Education's Management Manual 211. We have recommended that all significant systems, policies and procedures be documented.

CONCLUDING REMARKS

8.31 Although expenditures of the School Book Bureau are quite low in relation to total Department spending, the Bureau plays an important role in ensuring that learning resources are provided to Nova Scotia public schools in a timely and efficient manner. Establishing and reporting performance indicators and operational targets should help to further improve the effectiveness and efficiency of Bureau operations.

8.32 Significant cost savings are achieved through bulk purchasing of learning resources and shipping to one location. Early indications are that initiatives such as the directed purchasing policy and joint purchasing through the Atlantic Provinces Education Foundation should continue to be explored and evaluated, where suitable.

Exhibit 8.1

SCHOOL BOOK BUREAU
ANNUAL OPERATING/LEARNING RESOURCE EXPENDITURES

	2000-01	1999-2000	1998-99
Expenditures on Learning Resources			
Directed Purchasing	$ 2,926,643	$ 1,050,907	$ -
School Board Purchases	4,587,030	6,871,472	6,710,981
Other Educational Organizations	95,128	181,844	180,327
Subtotal	7,608,801	8,104,223	6,891,308
Less: Recoveries From Third Parties, School Boards and Others	(264,638)	(318,555)	(303,689)
Net Expenditure on Learning Resources	$ 7,344,163	$ 7,785,668	$ 6,587,619
School Book Bureau Operating Expenditures			
Expenditures of the Department of Education (Note 1)	$ 340,473	$ 369,462	$ 396,837
Expenditures of the Department of Transportation and Public Works (Note 2)	53,716	53,716	53,716
Total Operating Expenditures	$ 394,189	$ 423,178	$ 450,553

Note 1 - Operating expenditures consist primarily of salaries, equipment, postage and printing costs.

Note 2 - Estimated annual average expenditures by Department of Transportation and Public Works for building operation and maintenance.

SCHOOL BOOK BUREAU
RESULTS FROM LEARNING RESOURCE DISTRIBUTION SURVEY OF OTHER JURISDICTIONS (UNAUDITED)

Question	Nova Scotia	British Columbia	Alberta	Manitoba	Quebec	Ontario	New Brunswick
Who distributes learning resources in your province?	Book Bureau	Publishers	Book Bureau	Book Bureau	Publishers	Private Sector	Book Bureau
Do you have a credit allocation system in place?	Yes	No	Yes	Did not respond	Responded n/a	No	Yes
Who is responsible to ensure that schools/boards order the authorized learning resource?	Department and bureau	No requirement List is not prescriptive	School Boards	Did not respond	Responded n/a	Ministry responsible for funding	Department and bureau
Do you receive a discount for ordering in bulk?	Yes - depends on publisher on average 15%-20%	Responded n/a	Yes - 5% - 17%	Did not respond	Responded n/a	Did not respond	Yes - 15% - 20% usually education and warehouse discount
What is the average amount per student in learning resource allocation?	$50.36	Responded n/a	$9.60 - Schools pay 75% and 25% charged against credit allocation	Did not respond	Responded n/a	$75 elementary and $100 secondary	$31.00

Exhibit 8.2

9.

ENVIRONMENT AND LABOUR - OCCUPATIONAL HEALTH AND SAFETY

BACKGROUND

9.1 The Department of Environment and Labour, in accordance with the Occupational Health and Safety Act, is responsible for the promotion, coordination, administration and enforcement of occupational health and safety within the Province of Nova Scotia. The Act applies to all workplaces under Provincial jurisdiction and establishes a system which identifies rights and responsibilities for the various parties to workplace safety.

9.2 The foundation of the Act is the Internal Responsibility System, which is based upon the principle that employers and employees, in addition to any other individuals who can affect the health and safety of persons at the workplace, share responsibility for health and safety. It asserts that each party should assume responsibility for creating and maintaining a safe and healthy workplace to the extent of their authority and ability to do so. The system includes a framework for participation, sharing of information and refusal of unsafe work. The Department's role is to establish and clarify the responsibilities of the various parties under the Act and to intervene appropriately when those responsibilities are not carried out.

9.3 The Department ensures compliance with the Occupational Health and Safety Act primarily through inspection of workplaces and investigation of workplace accidents and complaints. In addition, the Act requires educational instruction to be provided in the principles of occupational heath and safety. The Act is not specific about which entities are responsible for providing such training.

9.4 The occupational health and safety activities of the Department are funded, in part, by the Accident Fund of the Workers' Compensation Board, as determined annually by Executive Council. For the year ended March 31, 2001 this amounted to $3.5 million, representing 82% of the $4.3 million provided for occupational health and safety. The Occupational Health and Safety Division of the Department employs 62 staff. The organizational structure of the Division is illustrated in Exhibit 9.1 on page 153.

RESULTS IN BRIEF

9.5 The following are our principal observations from this audit.

- The system used to plan and control regulation development is inadequate. The Department has limited resources to dedicate to this function, but does not have formal criteria or a prioritization process to identify areas where the need for new regulatory standards is most urgent. Also, once a decision is made to amend or create new regulations, there are no milestones, time lines or responsibilities established.

- The Department has a broad mandate under the Occupational Health and Safety Act and its associated regulations. As with any Nova Scotia law, this Act applies only to persons and businesses within the Province. However, there are elements of

uncertainty relating to the Act's application to certain work activity conducted offshore of the Province.

- If the Department continues to perform inspections at its current rate, it could take more than ten years to perform an inspection of all businesses in Nova Scotia. Despite this high volume, the Department does not have a rigorous approach to the targeting of higher-risk workplaces for inspection.

- Our examination of inspection files found instances of poor documentation, as well as inadequate follow-up of compliance orders issued. We also concluded that documentation of complaints and related investigations need to be improved.

- The Division needs better procedures to monitor the work activity of Occupational Health and Safety officers.

- The Department's annual report lacks substantive information on the performance of the Occupational Health and Safety Division and does not fulfil its potential as an accountability document.

AUDIT SCOPE

9.6 In July 2001, we completed a broadscope audit of the Occupational Health and Safety Division of the Nova Scotia Department of Environment and Labour under the mandate established by Section 8 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

9.7 The objectives of this assignment were to assess the Department's:

- process for developing and promulgating occupational health and safety standards;

- monitoring, inspection and other activities as they relate to the requirements of the Occupational Health and Safety Act and Regulations, as well as Department policy;

- system for enforcing Provincial legislation and regulations;

- processes to ensure the competence of personnel involved in occupational health and safety inspection and enforcement activities; and

- accountability framework with respect to occupational health and safety.

9.8 Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 9.2. Our audit procedures included review of occupational health and safety legislation and regulations, interviews with management and staff, testing of inspection and investigation files, as well as examination of other documents.

PRINCIPAL FINDINGS

Standards

9.9 *Standards development* - The development of occupational health and safety (OH&S) regulations begins with the identification of a need to develop a standard. The Department considers items such as new industry standards, developing trends within industries, accident statistics and the results of stakeholder consultation. After a new set of regulations or changes to existing regulations are drafted by the Department, they are sent to the Minister's Advisory Council for review.

9.10 The Minister's Advisory Council, in accordance with Section 25 of the Occupational Health and Safety Act, advises the Minister on OH&S issues, including any proposed changes to regulations. The Council is comprised of an equal number of representatives from employers and labour, in addition to government officials. Depending on the complexity of proposed changes, workgroups may be established to review and provide feedback on the appropriateness and functionality of the changes. In certain instances, the public is requested to provide submissions on the proposed revisions. In addition, legislation enacted by the Federal government and other provinces are considered. Before the Council finalizes its recommendations on new or changed regulations, the various stakeholder groups affected are asked to comment on the draft document(s). After consideration of stakeholder submissions and any necessary additional revisions, the Council submits the changes for approval by the Minister and Executive Council. Should the Minister's Advisory Council not reach a consensus, the OH&S Division will review the problem areas and make recommendations to the Deputy Minister for submission to the Minister, and advise the Council of its recommendations.

9.11 In the fall of 2000, Royal Assent was given to Bill 86, which made amendments to the Occupational Health and Safety Act. The Bill, in part, specifies that: *"The Governor in Council shall amend, re-enact or repeal every regulation ever made pursuant to Section 82(1) of the Act no later than five years after the regulation was made or re-enacted or last amended, as the case may be."* The purpose of this requirement is to ensure OH&S regulations remain current and relevant. Although these amendments will not come into effect until an order is issued by Executive Council, a review of existing regulations has already begun.

9.12 At the time of our audit, the Department was, in addition to reviewing all existing OH&S regulations, preparing six new sets of regulations and revising four existing sets of regulations. Senior management indicated that it can take in excess of ten years for new regulations to be finalized. For example, a 1988 inquiry into a diving fatality, under the Fatal Inquiries Act, recommended that new regulations be prepared to regulate the diving industry. The Department prepared regulations as recommended by the inquiry. However, they are still in draft form due to unresolved concerns raised by industries which would be affected by the regulations. Senior management of the OH&S Division informed us that certain sections of the existing Occupational Health and Safety Act and regulations can be applied to the diving industry. However, this Act does not directly address the specific occupational risks of diving and specific regulations would make interpretation and enforcement less complicated.

9.13 In our view, the system used to plan and control regulation development is inadequate. The Department has limited resources to dedicate to this function, but does not have formal criteria or a prioritization process to identify areas where the need for new regulatory standards is most urgent. Also, once a decision is made to amend or create new regulations there are no milestones, time lines or responsibilities established. A system had been in place to track regulation development, but it was abandoned due to a lack of resources needed to keep it current. It is expected that a reorganization of existing Departmental resources should enable the Department to reestablish control over the development of regulations.

9.14 *Stakeholder education* - After regulations are approved by Executive Council, the Department undertakes public information sessions to communicate the impact of the new regulations. Advertisements are placed in local newspapers throughout the Province to indicate time and location for an information session. During regular workplace inspections, OH&S officers will provide information on new regulations. The Department publishes various brochures with information on safety practices and the Act. Also, information concerning legislation and regulations is on the Department's web-site, including a reference manual for all new regulations. The manual contains clarifications of certain sections of the regulations based on legal opinions obtained, as well as Department policy on application of the regulations. Additionally, articles on new regulations are published in certain industry trade journals.

9.15 The Act requires that courses be made available on the principles of occupational health and safety. Various courses are offered by the Nova Scotia Community College, Dal Tech, the Nova Scotia Safety Council, the Nova Scotia Construction Safety Association and various private groups; most in cooperation with the Department. These courses cover sections of the Act and OH&S policies. As well, the Department's web-site contains information on courses currently offered by external parties relating to a specific type of OH&S requirement (e.g., first aid training).

Compliance with Legislation

9.16 *Legislative jurisdiction* - The Department has a broad mandate under the Occupational Health and Safety Act and its associated regulations. As with any Nova Scotia law, this Act applies only to persons and businesses within the Province. However, there are elements of uncertainty relating to the Act's application to certain work activity conducted offshore of the Province. Offshore work includes production and exploratory activity at numerous oil and gas fields, as well as work on fishing, transport, cargo and other vessels in Canadian waters surrounding the Province.

9.17 One area of uncertainty relates to offshore boundaries. The OH&S Act does not specify these boundaries, and thus it is unclear which offshore structures are considered to be in the Province. There is more clarity relating to cargo vessels and ferries, however there is some confusion with respect to fishing vessels.

9.18 There are also some areas where there is a lack of clarity surrounding the respective authorities of the Federal government and the Nova Scotia government for OH&S issues. Some of these relate to fishing by members of First Nations and interprovincial transportation.

9.19 Another element of uncertainty surrounds the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act. This is a piece of legislation which governs the sharing of responsibility and authority between Nova Scotia and the Federal government with respect to oil and gas exploration and production. This Act is acknowledged to have over-riding authority regarding such offshore activities, and provides for OH&S regulations for offshore work. However, no such regulations were ever produced. The Department entered into a memorandum of understanding with the Canada-Nova Scotia Offshore Petroleum Board to administer the Department's perceived responsibilities relating to the offshore. As part of this agreement, a safety officer working for the Canada-Nova Scotia Offshore Petroleum Board is officially an employee of the Nova Scotia Department of Environment and Labour for purposes of enforcement of the OH&S Act, and the Department receives regular reporting from the officer. The Department is working to further resolve the issue, but requires agreement at both the Federal and Provincial level. Also, there is a desire to bring the Province of Newfoundland and Labrador into any agreement on the approach to regulating occupational health and safety in offshore workplaces.

9.20 *Compliance with legislation* - Senior management is confident the Department is complying with all significant provisions of the Act and regulations. Except for the various uncertainties

relating to jurisdiction described above, our examinations showed no instances where the Department is not complying with key provisions of the Occupational Health and Safety Act and related regulations.

9.21 The OH&S Division has developed a policy and procedure manual. We examined policies and procedures related to the inspection process and found they are either derived from or consistent with the Act and Regulations. Appropriate references are made to the Act and Regulations in the various sections of the manual. Changes to the manual go through an extensive internal review process, which may include review by legal staff. The manual is reviewed and updated on a periodic basis.

9.22 We found the OH&S policy and procedure manual to be comprehensive. However, we recommended that the OH&S Division develop more detailed policies and procedures in a few specific areas: the selection of businesses for inspection; accident investigations; management review of inspection reports and orders issued; and guidelines for when reinspections are to be performed.

9.23 Paragraphs 9.9 and 9.10 of this Chapter describe the process used to make changes to the OH&S Act and Regulations. Once changes have been approved by the Legislature and/or Executive Council, all OH&S Division staff are informed of the changes by correspondence and formal training. The Division's policy and procedure manual is updated to reflect the changes. Staff have ready access to the most recent version of the Act, regulations and policy and procedure manual.

9.24 As described in paragraph 9.2, the responsibility for creating and maintaining a safe and healthy workplace lies with both employers and employees. Through its various activities, the Department informs employers and employees of what is required of them under the OH&S Act and Regulations. Aside from the reporting of accidents, there is no formal reporting specified in the Act or Regulations for OH&S committees or other groups to ensure they are fulfilling their legislated responsibilities. The Department obtains assurance that legislated requirements are being met through its inspection process and the investigation of complaints and accidents.

9.25 *Inspections overview* - The Field Services Section of the OH&S Division is responsible for the delivery of a series of core services. These services include: health and safety inspection; investigation; consultation; mediation; compliance promotion; and enforcement. The services are delivered by occupational health and safety officers who are each assigned to one of 30 geographical territories. Each officer has been assigned a territory estimated to contain approximately 1,000 businesses. Because of the problem in determining the number of businesses in Nova Scotia, as described below in paragraph 9.27, the actual number of businesses assigned to an officer may vary from the standard established.

9.26 *Management information system* - The Department uses a computerized Inspection Tracking System to record the results of some of its activities. The OH&S Division has identified the need to acquire a more integrated management information system. There are a number of deficiencies in the current system.

- The software is not consistent with the operating system used by other Department systems.
- There are limitations to the company and inspection data which can be recorded in the system.
- The system is not designed to report on all company contacts. It focuses primarily on inspections.

- The data in the system is at least one month old at any specific moment, and staff cannot access the data in an on-line environment.

- There is limited specialized reporting capability.

9.27 *Inspection policies* - The Department is unable to determine the number of businesses covered under the Act. The Department's Inspection Tracking System is using 1995 data obtained from the Workers' Compensation Board. This data includes information on approximately 17,000 businesses required to be registered with the Workers' Compensation Board. However, the OH&S Act applies to almost all businesses operating in Nova Scotia, which is not the case with respect to the Workers' Compensation Act. Draft statistical information obtained from the Department of Finance indicates there were approximately 48,000 businesses in Nova Scotia in 1999. The Department of Environment and Labour is currently awaiting approval to proceed with a study to determine the feasibility of accessing the Nova Scotia Business Registry, which is maintained by Service Nova Scotia and Municipal Relations. If the Department obtains access to the Business Registry, it would have a more complete and up-to-date listing of businesses covered under the OH&S Act.

9.28 Exhibit 9.3 on page 155 provides summary statistics on the number of workplace contacts for fiscal years 1995-96 to 2000-01. If the Department continues to perform inspections at the same rate as in 2000-01, it could take more than ten years to perform an inspection of all businesses in Nova Scotia. For the 2000-01 fiscal year, the Department established a standard of 120 workplace contacts (i.e., inspections, reinspections, complaints, work refusals, discriminatory actions and accident investigations) for each officer. Each officer was required to have 60 workplace contacts among the natural resources, manufacturing, retail service and government sectors; inspect every business that had been prosecuted by the Department since April 1, 1998; and perform an inspection of the five businesses in each officer's territory that had the highest accident rate according to the Workers' Compensation Board. However, because of problems in accessing and analyzing data from the Workers' Compensation Board, the Department had difficulty pursuing its goal of inspecting businesses with higher accident rates.

9.29 In our view, the Department does not have a rigorous approach to the targeting of higher-risk workplaces for inspection. There is little support at the Department to indicate that currently targeted industry groups have a higher risk factor with respect to workplace safety. Further, only 5 of 120 business contacts are aimed at businesses with a history of higher accident rates. Also, as indicated above, there is insufficient information to make good risk-based decisions. Therefore, the Department cannot ensure that officers are targeting all high-risk businesses for inspection. We recommended that the Department develop a more formal risk-based inspection system.

9.30 *Performing inspections* - The Department's inspection function serves to monitor and enforce compliance with the OH&S Act and Regulations. Inspections are unannounced. The results of an inspection are documented on an inspection report and compliance orders are issued when there are significant violations of the Act or Regulations. Inspection reports must be signed by the OH&S officer and a representative of the company. Generally, we found inspection reports to be understandable. However, we noted four reports out of 60 examined were not signed by the officer or a company official.

9.31 In the spring of 2000, the Department established a committee to develop checklists which could be used by officers to evaluate compliance with the OH&S Act and Regulations. At the time of our audit, only the checklist for the OH&S Act had been finalized and implemented. Since checklists provide valuable documentary evidence that a workplace is in compliance with key provisions of the Act and Regulations, we recommended the remaining checklists be finalized and implemented as soon as possible.

9.32 Since May 2000, each inspection must include a review of the Internal Responsibility System at a workplace. This review must be documented on the inspection report and supported by the OH&S Act checklist. During our testing of 65 initial and follow-up inspections, we noted:

- seven instances where the review of the Internal Responsibility System was not well documented in the inspection report; and
- seven instances where the checklist for the OH&S Act was not completed.

9.33 If officers observe instances where there is non-compliance with the Act or Regulations, they have an option as to how to proceed. Minor deficiencies can be noted in the inspection report and the company instructed to correct them. Alternatively, officers can issue formal compliance orders when more serious deficiencies are identified.

9.34 During our testing of a sample of 65 initial and follow-up inspections, we noted:

- three instances where additional compliance orders should have been issued; and
- three instances where a general order which covers a number of deficiencies was issued, rather than a separate order for each deficiency.

9.35 We found that all orders were referenced to the applicable sections of the Act and Regulations. Because some orders were not well worded, we recommended that the Department develop standard wording so that deficiencies observed and actions required to achieve compliance are clearly and consistently stated.

9.36 A compliance date is established for all orders issued. Officers are responsible for ensuring orders are complied with by the specified date. This is accomplished by requiring companies to submit documentation describing how they have complied with orders or by a reinspection performed by an OH&S officer. We noted instances where it may have been more appropriate to perform a reinspection rather than requiring companies to submit documentation and we recommended that additional guidance be provided to help officers decide whether a reinspection is warranted.

9.37 We noted that businesses often do not submit documentation as required to support compliance with orders, and when they do it is often minimal. Businesses sometimes only state what they plan to do in order to achieve compliance. During our testing of 60 initial inspections, we found:

- 23 instances where businesses did not submit documentation to confirm compliance with the orders issued;
- six instances where businesses submitted documentation that did not confirm compliance with all of the orders issued; and
- four instances where there was inadequate follow-up of the status of orders issued.

9.38 We selected a sample of five reinspections to determine if officers had verified compliance with all orders issued. We noted:

- two instances where the reinspection should have been classified as a meeting because it was not comprehensive enough to be considered an inspection;
- three instances where the reinspection did not address all of the orders issued;

- two instances where there was mention of deficiencies not identified in the initial inspection report; and

- two instances where reinspections were not performed on a timely basis.

9.39 *Accident investigations* - The Department is spending an increasing amount of time investigating accidents (Exhibit 9.3). Section 63 of the OH&S Act requires employers to notify the Department of all accidents where an employee is injured or killed, or there has been an accidental explosion.

9.40 Workplace injuries must also be reported to the Workers' Compensation Board. The OH&S Division is able to generate a report of claims received by the Workers' Compensation Board which identifies instances where there has been serious injury to a worker. If an injury or incident is not reported to either the Department or the Workers' Compensation Board, the Department may never become aware of it.

9.41 Officers investigate all significant accidents reported to the Department, as well as a sample of accidents listed on the Workers' Compensation Board report. Accident investigations are documented in preliminary accident investigation reports. An officer's recommendation to perform a more detailed investigation is reviewed and approved by management of the Department.

9.42 In general, we found that stated procedures were used to investigate accidents, and the results of accident investigations and officers' decisions on whether to perform a more detailed investigation or lay a charge under the OH&S Act were appropriately documented. Accident investigation files and any recommendations to lay charges were also reviewed and approved by Division management.

9.43 The Department has recently revised its accident and prosecution investigation procedures. These revised procedures will provide additional guidance to officers and should decrease the time committed to accident investigations. Procedures now allow for a preliminary investigation to be conducted to determine if a full investigation is warranted. Reducing time spent on investigations will allow more time for performing inspections.

9.44 *Complaint investigations* - The Department is receiving an increasing number of workplace safety complaints. The Department has revised its policy on investigating complaints (including complaints not related to specific accidents). The policy will require that certain complaints be first addressed to a workplace's OH&S Committee. It is expected that many complaints can be satisfactorily resolved by such committees, and this will decrease the time spent by Division staff on investigating complaints, allowing officers to spend more time performing inspections.

9.45 In general, we concluded that documentation of the steps taken to investigate complaints needs to be improved. In our testing of complaints, we were unable to determine if they were properly investigated because complaint forms were not in the files and the inspection reports did not identify the specific complaints being investigated. We recommended that adequate documentation be maintained of the filing and investigation of complaints.

9.46 *Review of inspection activity* - Regional managers are responsible for reviewing a sample of inspection reports to ensure inspections are adequately documented, proper orders have been issued and all orders have been complied with. No guidelines have been established for these reviews. As a result of preliminary findings from our audit which indicated problems with inspection files, the Department is examining how it can strengthen this review process. This should improve the quality of inspections and provide useful feedback to OH&S officers.

9.47 *Reporting the results of inspections* - When we began our audit, the Department had no regular reporting of officer work activity. Since then, all officers are required to submit monthly activity reports. However, activity reported is not classified according to the key inspection categories used for goal setting during the performance appraisal process.

9.48 We believe it is important for the Department to monitor both the number of workplace contacts and the time required to complete these activities. The Department should establish guidelines for the time required for an officer to complete various activities. Officers should complete time sheets to permit comparison of actual performance against established guidelines. Staff time is the primary resource that the Division manages and without complete information on how that resource is being applied, managing the resource is much more difficult.

Enforcement of the Act and Regulations

9.49 *Overview* - In accordance with the principles of the Internal Responsibility System, as described in paragraph 9.2, Section 29(1) of the OH&S Act requires businesses with 20 or more employees to have a joint occupational health and safety committee comprised of management and employee representatives. Section 33(1) of the Act specifies that businesses having between five and twenty employees do not need a committee, but must have a health and safety representative selected by the employees. Businesses with fewer than five employees are not required to have a health and safety committee or representative. The main purpose of the health and safety committee or representative is to identify hazards to health and safety, and to ensure effective systems are in place to respond to the hazards identified.

9.50 If a workplace Internal Responsibility System fails to address health and safety, or if requirements of the Act or regulations are not being followed, the Department has the authority to enforce compliance. Under various sections of the Act, officers have broad powers to enter any workplace and conduct any investigation, examination or inquiry considered necessary. They can investigate any injury or accident, and order compliance with the Act and its Regulations.

9.51 There were 8,754 compliance orders issued during 2000-01. This represents an increase of over 200% during the last five years (see Exhibit 9.3 - page 155). The primary causes of the increase are greater targeting of high-risk workplaces and new regulations to enable greater enforcement of safety in the construction industry.

9.52 *Appeal of compliance orders* - Section 55 of the Act allows an officer to issue compliance orders. Appeals of orders issued by an officer, or the decision of an officer not to issue orders, can be made to the director of the OH&S Division in accordance with Section 67 of the Act. After reviewing the appeal, the director can confirm, vary, revoke or suspend the orders or decisions being appealed. The decision of the director can be appealed to a panel established by the Minister in accordance with Section 68 of the Act. Likewise, the appeal panel can confirm, vary, revoke or suspend orders or decisions appealed. Decisions of the appeal panel are final and binding, and can only be appealed to the Nova Scotia Court of Appeal on questions of error in law and jurisdiction.

9.53 Since the Act was amended in 1996, the number of appeals has grown each year. In the 1997-98 fiscal year, there were 15 appeals of officer's decisions, and in 2000-01 there were 30 appeals initiated. Management believes this increase is due to a number of factors (including increased knowledge of the OH&S Act and Regulations) and that the number of appeals will continue to increase.

9.54 We found that the appeal process meets the requirements of the Act. An appeal decision prepared by the director of the OH&S Division or the appeal panel is documented in a standard format and includes a summary of the evidence submitted, a statement of facts, an analysis of the

requirements of the Act and Regulations, and the reasons for the decision rendered. We noted that the Act does not specify any time limits by which the director or appeal panel must render a decision. We were informed that the time to process an appeal can vary depending upon the complexity of the issues.

9.55 Upon the issuance of an order, an aggrieved person has 14 days to appeal. Rights with respect to appeals are described in legislation and various publications of the Department. However, the rights are not communicated in writing at the time an order is issued and there is no policy requiring verbal communication. Considering the complexities of OH&S legislation and regulations, and the short period available to appeal an order, we believe appeal rights should be communicated immediately.

9.56 *Prosecutions* - Prosecutions must be considered in situations where there has been a breach of the Act or Regulations, and:

- the injury, illness or occupational disease suffered by a worker is serious or fatal;
- offenses were committed where there is a high risk of causing either serious or fatal injury to workers; or
- the employer or employee is in wilful non-compliance with the Act and Regulations.

9.57 The prosecution process is documented in the OH&S Division's policy and procedure manual. The Department is currently developing a more comprehensive accident investigation and prosecution manual which will provide additional guidance to officers.

9.58 All investigations leading to a prosecution are to be documented in a standard format. We reviewed a sample of five prosecution files and noted one prosecution report was not prepared in this format.

9.59 The Department has developed a detailed policy on when officers are to consider prosecution. The policy notes that even where there is sufficient evidence for conviction under the Act or Regulations, resource limitations of the courts and the Department, as well as public interest factors, may result in a suspected offender not being prosecuted. The public interest factors are based upon the policy used by the Nova Scotia Public Prosecution Service in determining whether the public interest is best served by a prosecution. The reasons why an officer is recommending or not recommending prosecution must be documented in the prosecution report and based upon the prosecution policy. The recommendation of the officer must be approved by management of the Division. In our testing of prosecution files, we observed that recommendations of prosecution were based upon the guidelines and approved by management of the OH&S Division.

9.60 Penalties which can be imposed by the courts are specified in Section 74 of the OH&S Act. Businesses or individuals found guilty under the Act can be fined up to $250,000, imprisoned for a period not exceeding two years, or fined and imprisoned. In addition, under Section 75 of the Act, additional penalties can be imposed, including directing the offender to:

- publish the facts related to the offense;
- perform community service; and
- pay the Minister monies which are to be used for public education.

9.61 As previously noted, resource limitations of the courts and the Department may result in a suspected offender not being prosecuted. In some jurisdictions in Canada, summary offense tickets are issued for instances of non-compliance that normally would not lead to prosecution. This provides an alternative to the court system for enforcement. The Department has prepared draft regulations which would allow officers to issue summary offense tickets. However, additional consultation is required before regulations are finalized and submitted to the Minister and Executive Council.

Competency

9.62 *Qualifications and objectivity* - Since 1997, the OH&S Division requires employees hired as OH&S officers to be certified as a Canadian Registered Safety Professional, Professional Engineer, or have equivalent training and experience. A Canadian Registered Safety Professional is a member of a national association of safety practitioners. Officers hired in the past few years who do not have the Canadian Registered Safety Professional designation are required to obtain it in a specified period of time. Officers hired before 1997 who do not have this designation are encouraged, but not required, to obtain it. In February 2000, the Division established occupational hygienist positions to examine concerns of environmental exposure or contamination in a workplace, and incumbents are required to have a Bachelor of Science degree, and either a Master's degree or diploma in Occupational Health, and two years related industrial hygiene experience.

9.63 It is extremely important that all OH&S staff perform their duties without bias or conflict of interest. The Department has a conflict of interest policy to help ensure all staff maintain independence in their daily activities. On appointment to a position, and throughout employment with the Department, officers must declare any conflicting private interests, including situations where an officer is paid for off-duty work relating to occupational health and safety (e.g., after-hours training). If an officer is asked to perform an inspection, investigation or other 'coercive' activity at a company where he or she has or may be perceived to have a conflict of interest, the officer is required to inform management. Upon reporting of a conflict of interest by an officer, or a verified report from any other source, management will assign a different officer to the case.

9.64 For OH&S purposes, the Province is divided into 30 territories and 31 officers and occupational hygienists are assigned to the various areas. However, there is no policy on rotating officers among the territories to help maintain the objectivity of officers, provide opportunities for experience, and allow for different perspectives to be applied to individual inspections. The Department attempts to assign officers to territories closest to the place of residence to avoid excessive travel time and costs. We recommended that the Department more closely examine the costs and benefits of implementing a system of officer rotation, especially in areas of greater concentration of officers and workplaces.

9.65 *Training* - It is mandatory for new employees to receive up to five weeks training before assuming job responsibilities. The training includes a review of OH&S legislation, regulations and policies, as well as courses offered by the RCMP and the Nova Scotia Construction Safety Association. The OH&S Division has a mentoring program for new employees. For up to six weeks subsequent to the completion of mandatory courses, new officers are accompanied by an experienced employee who will guide and assist with work assignments. At the end of the mentoring period, a review of the employee's progress is performed.

9.66 Currently all training taken by officers must be reported to management. The Division also conducts a week-long training session on a semi-annual basis to review Division activities and receive presentations by internal and external parties on specific OH&S topics. At the time of our audit, the Division was preparing a five-year training schedule for OH&S officers. A computerized system is being implemented to track training taken by staff. The courses required will be related

to OH&S issues and divided into mandatory, recommended and supplemental (in-house) categories. Training requirements will be reviewed as part of the annual performance appraisal process.

9.67 *Performance monitoring* - As discussed above, the OH&S Division has established a mentoring program to assist in developing and assessing the performance of new officers. In February 2000, the Division adopted the performance appraisal system used for all employees of the Province. Previous to this, performance appraisals were not being conducted in the Field Services Section of the OH&S Division. The appraisals will be done on an annual basis and employee performance will be assessed against goals established at the beginning of the assessment period. The appraisals will be used to identify areas of strength, as well as matters of concern which need to be addressed over the next evaluation period. The appraisals enable employees to have input into their career and personal development plans.

Accountability

9.68 *Accountability information* - An integral part of the accountability process is provision of sufficient, appropriate, understandable and timely information on areas of assigned responsibilities. The accountability process within the OH&S Division relies heavily on personal contact. There is frequent daily interaction, as well as bi-weekly and monthly meetings. In addition, senior management of the OH&S Division reports formally to the Deputy Minister during bi-weekly Department senior management meetings. As part of our audit, we examined minutes of internal Division meetings and found that management regularly focuses on operational issues and application of the Act.

9.69 The Department prepares an annual report. The most recent annual report, tabled with the House of Assembly on April 5, 2000, was for the year ended March 31, 1999. We believe 12 months is too much of a delay for reporting on the performance of the Department. We recommended that the annual report be prepared and issued on a more timely basis; not more than six months after year end.

9.70 In addition, the OH&S Division is required to prepare an annual report for presentation to the Minister's Advisory Council, and excerpts from it are included in the Department's annual report. In the fall of 2000, the Division presented its annual report on Divisional activities for the year ended March 31, 2000 to the Advisory Council.

9.71 We observed that the Department's annual report lacks substantive information on the performance of the OH&S Division and does not fulfil its potential as an accountability document. The report does contain Divisional objectives, commentary on significant events which have affected the Division and general information on Divisional activities. However, there is insufficient reporting of the performance of the Division against its stated goals.

9.72 Performance information included in the report is derived from the Workers' Compensation Board of Nova Scotia, Statistics Canada, and data generated internally by the Division. However, the OH&S Act applies to more entities than those monitored by the Workers' Compensation Board. As discussed in paragraph 9.27, certain information on accidents obtained from the Workers' Compensation Board is considered insufficient for OH&S purposes. As well, the Division has been unable to determine the number of workplaces covered under the Act. Some outcome measures are included in the annual business plan for the Department. However, our review of the outcome measures indicated they are mainly historical statistics which do not closely relate to OH&S activities, or in a qualitative format and unable to be measured.

9.73 Our review of the Department's annual report also revealed that it does not contain information relating to compliance with legislation. This is a major responsibility for the

Department, and more specifically the OH&S Division. In our view, external reporting should be more pro-active with respect to compliance responsibilities. We suggest that reports state the key pieces of legislation pertaining to the Department, the Department's responsibility for ensuring compliance, how compliance is managed and ensured, and an assessment of performance in this area.

CONCLUDING REMARKS

9.74 The process for the development of occupational health and safety standards is not timely, but the process for promulgating occupational health and safety standards is well performed.

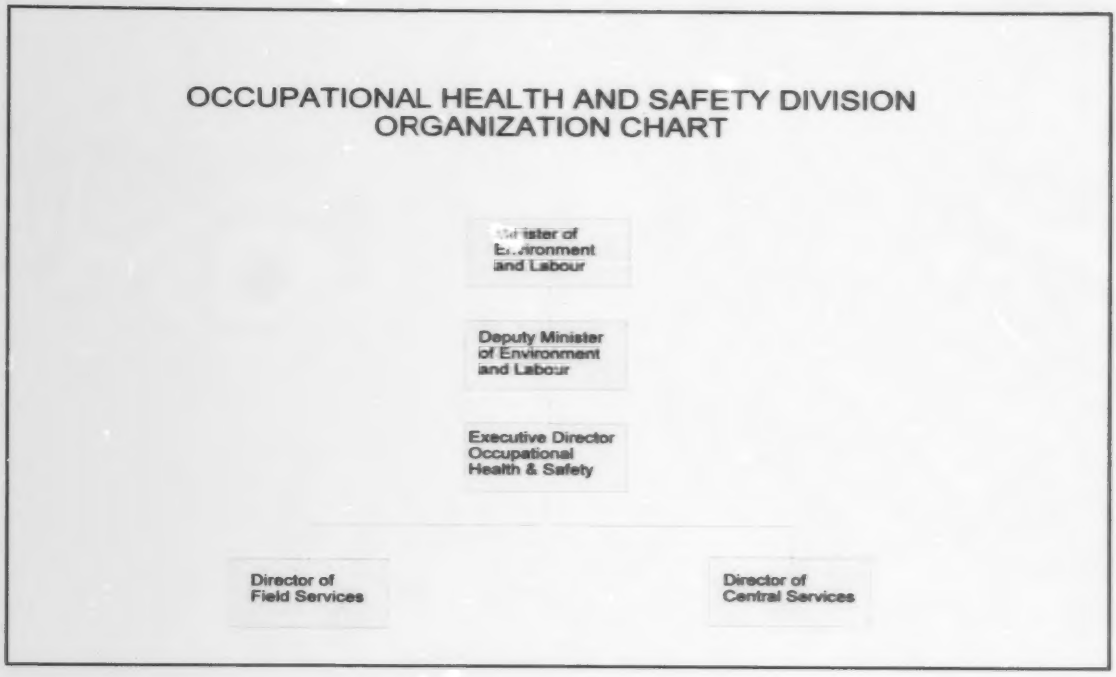
9.75 The Department is complying with key provisions of the Occupational Health and Safety Act and the related Regulations. We also concluded that the Department's inspection process needs improvement with respect to the selection and documentation of inspections and the follow-up of orders issued. The Department needs to increase the frequency of inspections and ensure high-risk businesses are targeted for inspection. The Department's monitoring of inspection activities needs strengthening.

9.76 The system for enforcement of the Occupational Health and Safety Act and Regulations is satisfactory. The OH&S Division has the necessary processes in place to ensure the competence of personnel involved in OH&S inspection and enforcement activities.

9.77 The Department has a reasonable internal accountability framework. There is a need to improve the accountability process as it relates to the development and disclosure of performance information within the OH&S Division and in the Department's reporting to the House of Assembly.

Exhibit 9.1

OCCUPATIONAL HEALTH AND SAFETY DIVISION ORGANIZATION CHART


Minister of Environment and Labour
Deputy Minister of Environment and Labour
Executive Director Occupational Health & Safety
Director of Field Services
Director of Central Services

Other positions reporting to the Deputy Minister:

- Executive Director of Alcohol and Gaming
- Executive Director of Public Safety
- Executive Director of Labour Services
- Executive Director of Environmental Monitoring and Compliance
- Executive Director of Environmental and Natural Area Management
- Director of Information and Business Services
- Superintendent of Pensions
- Director of Labour Standards
- Superintendent of Insurance
- Director of Policy
- Director of Communications

Exhibit 9.2

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed tests and procedures.

The following criteria were used in our audit of the Occupational Health and Safety (OH&S) Division of the Department of Environment and Labour.

- *Standards* - The Department should have sufficient knowledge to determine where occupational health and safety standards are in need of development or change. There should be systems and procedures in place to develop appropriate occupational health and safety standards on a timely basis. There should be ongoing public education and promotion of occupational health and safety standards.

- *Compliance with legislation* - The Department should comply with applicable provisions of Provincial OH&S legislation and regulations. The Department's policies should be consistent with legislation and regulations. There should be a process which enables management to know whether or not key provisions of legislation and regulations are being complied with. There should be a system to ensure that inspections are carried out on a regular and timely basis. There should be a system to follow-up on the implementation of inspection orders.

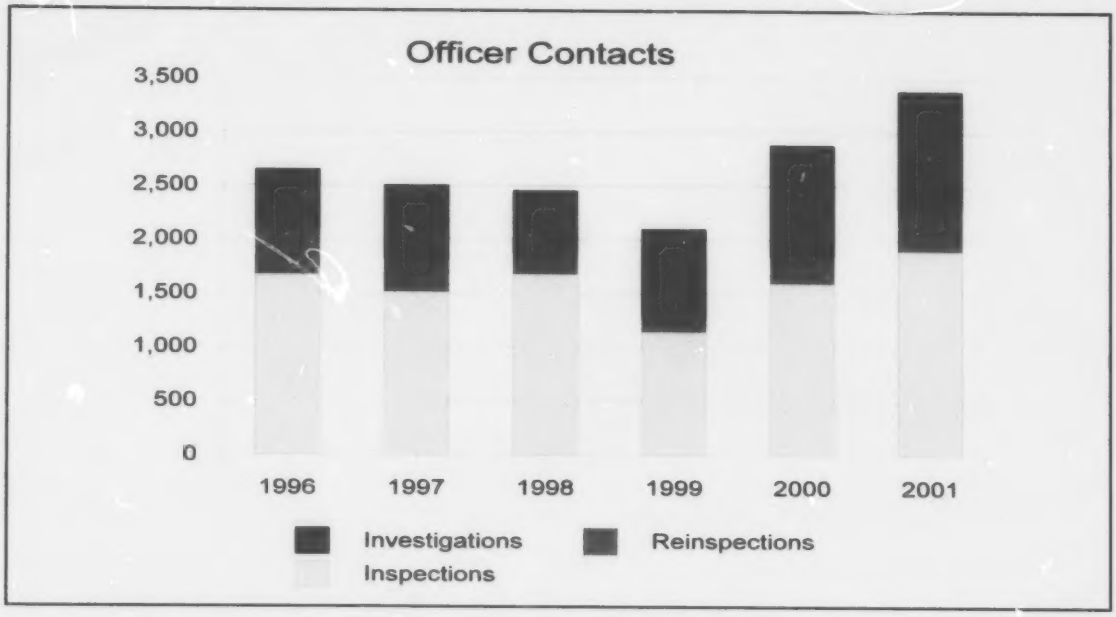
- *Enforcement of the Act and regulations* - There should be a system to ensure Provincial legislation and regulations are appropriately enforced. Powers, roles and responsibility for enforcement of legislation and regulations should be clear.

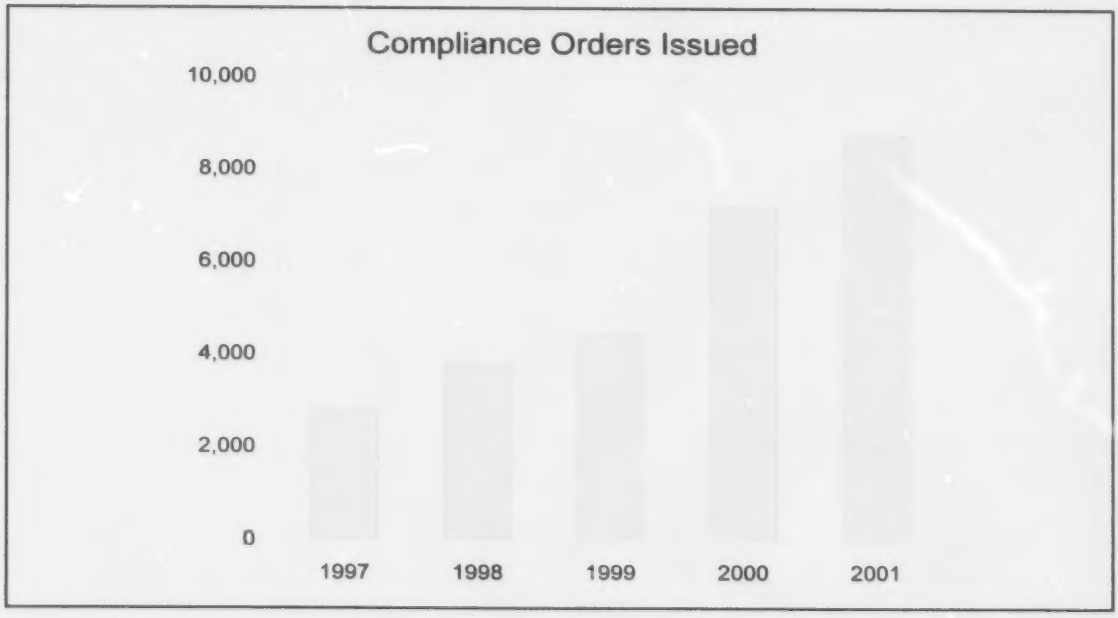
- *Competency* - Personnel should have appropriate education and qualifications to administer the laws for which they are responsible. Department policies should reflect current legislative requirements for industry safety standards. Changes to legislation, regulations and policies should be communicated to personnel on a timely basis. There should be a process to ensure personnel receive ongoing training in industry safety standards/technologies and other relevant areas. There should be a system of regular evaluation of staff competency and performance, with corrective actions taken when deficiencies are observed.

- *Accountability* - There should be adequate systems and controls to ensure the completeness, accuracy and timeliness of information reported. There should be relevant and timely reporting to inform the Minister and House of Assembly of the Department's performance with respect to its OH&S mandate. The Department should know whether health and safety standards are being implemented and having a positive impact.

Exhibit 9.3

OCCUPATIONAL HEALTH AND SAFETY DIVISION





DEPARTMENT OF ENVIRONMENT AND LABOUR'S RESPONSE

In response to your findings, as a result of the broad scope audit conducted of the Occupational Health and Safety Division, I would provide the following updates on activities.

Regulation Development Process

The following improvements have been made to the Regulation Development Process:

1) *A schedule has been developed to identify when each regulation is planned for review or a new regulation planned for development.*

2) *A Regulation Review Coordinator has been appointed to oversee the entire review process.*

3) *A detailed workplan has been developed for each active regulation and a template process developed for new regulations. These both include milestones and time lines.*

4) *Specific personnel are named as responsible for each step in the workplan and progress reviewed.*

5) *The work on the proposed Diving Regulations, of which specific mention was made, has been completed and the final paperwork is being done to move these to Treasury and Policy Board Review and final drafting by Justice.*

Application of Legislation

The issue of jurisdiction between the provincial and federal governments is one that is subject to ongoing revision as legal opinion and case law evolves in the area. We maintain a level of vigilance to ensure that we can respond to changing circumstances.

1) *We continue to apply decisions rendered in jurisdictional areas to the operations of the Occupational Health and Safety Division and work to resolve outstanding issues.*

2) *The courts have recently confirmed provincial jurisdiction in relation to the business of fishing and we are, through the Nova Scotia Department of Agriculture and Fisheries, identifying representative associations to develop guidelines to address health and safety issues in this sector.*

3) *In the offshore petroleum sector the Department is working with our Newfoundland and Federal counterparts to revise legislation to clarify the question of jurisdiction. The Occupational Health and Safety Division maintains its oversite roll as we work with representatives of the Canada Nova Scotia Offshore Petroleum Board.*

4) *The Occupational Health and Safety Division maintains a standing committee with Human Resources Development Canada, our Federal counterpart, to discuss and resolve issues as they arise.*

Targeting of High Risk Employers

The following improvements have been made to resource allocation to allow for additional targeting of high risk employers.

1) *The Occupational Health and Safety Division has introduced a trial targeted workplace inspection system. Our targeting is based on Workers' Compensation Board data. We are presently carrying out these targeted inspections in the following industry sectors: Health and Social Services, Accommodation & Food Beverages and Manufacturing based on the results of the data analysis.*

2) *In addition to inspections the Workers' Compensation Board and the Occupational Health and Safety Division target sectors for educational initiatives. We have completed in November 2001, six information sessions across the Province directed at the health care sector. Practices which are resulting in the increasing accident experience have been identified as well as opportunities for employers to address these areas.*

3) *As we incorporate a greater degree of targeting into the work of the Occupational Health and Safety Division we are mindful that we need to balance those services with the response to complaints investigations and other Divisional activities that must as well be maintained. With the introduction of the process improvements in other areas such as our policy and format for accident investigations / prosecutions, we believe that the time previously spent on these activities can be reduced and reallocated to inspection activities.*

Quality of Inspection Files

The following improvements have been made to ensure that inspection file quality is maintained.

1) *Management has established a standardized format to monitor inspection reports, orders and investigations to identify deficiencies in document completion to permit issues to be identified and addressed.*

2) *In January, 2002 steps will be undertaken, in consultation with Legal Services, to identify specific wording for compliance orders. Priority will be placed on sections of the Act/Regulations most consistently used by the officers. The annual report clearly identifies the areas where we are issuing compliance orders.*

3) *To improve the area file documentation and service to our clients we have developed a compliance notice form for use by clients in receipt of orders and have asked officers to inform all clients receiving orders they have the right to appeal the order until we can reformat the order form to include this information.*

Monitoring of Work Activity

The following improvements have been made to the management monitoring of work activity.

1) *The Occupational Health and Safety Division has developed a request for proposals and is seeking approval to replace the current inspection tracking system with one which will provide enhanced abilities to record information, track activity and provide activity reports to officers and supervisors.*

2) *The proposed inspection tracking system will provide a number of new features for use in the work of the Occupational Health and Safety Division including the further standardization, in consultation with Legal Services, of specific wording for compliance orders.*

3) *In the interim, while the proposed tracking system is developed management has established a standardized format to monitor inspection reports, orders and investigations to identify deficiencies in document completion to permit issues to be identified and addressed.*

4) *Deficiencies noted during the review conducted of files are being addressed through a review of inspection reports by supervisors.*

5) *The Occupational Health and Safety Division has developed a checklist related to the operation of the internal responsibility system operation in workplaces and is developing additional checklists to address the issue of consistency and quality of inspections.*

6) *The officers monthly status report to their regional managers have been revised to ensure that these reports focus on the seven inspection activities agreed to for the year which are noted on the performance appraisals for the officers. Managers require officers to submit a list of all outstanding orders monthly. Any outstanding orders not being acted upon are reviewed with each officer.*

7) *A time management system will be introduced in January, 2002 which is intended to identify the time an officer spends in the following areas: travel, meetings, inspections, complaints, re-inspections and administration to assist the Occupational Health and Safety Division better identify our resource uses. We hope to incorporate a time management system into our new tracking system when it is implemented.*

Annual Report

The following improvements have been made to the Division's annual report:

1) *The current format of the report is in accordance with a framework agreed to by the Occupational Health and Safety Advisory Council who, pursuant to section 9 of the Occupational Health and Safety Act, are the primary recipients of the report.*

2) *The current format lists several goals of the Division, originating both from the Department business plan and from the framework document itself. In each case, where the data is available, the Division's performance in relation to the goal is clearly stated.*

3) *The key pieces of legislation and the associated regulations that we enforce are identified.*

4) *The report has been made available on the Internet, increasing its usefulness as an accountability tool.*

5) *The goals of the Division are as much related to injury reduction and service as they are to the responsibility for ensuring compliance with the regulations. The current annual report format does review our performance in the areas of issuing and following up on orders and does indicate where violations are most commonly cited which provides an assessment of client compliance with the various laws.*

6) *The Occupational Health and Safety Division continues to work with similar organizations from other provincial, territorial and the federal governments to identify uniform performance measures that can be used and will increase comparability of work between jurisdictions.*

Additional Areas

1) *The policy and procedures manual is presently under a full review with the stated intent to structure the manual so more information can be placed on the internal Intranet site that is readily available to all officers.*

2) *New policies and procedures are being introduced and existing policies and procedures are being reviewed to standardize them with current best practices in a number of areas including re-inspections, complaints and a revised accident reporting and investigation format.*

3) *The Occupational Health and Safety Division has entered into discussions with staff of the Nova Scotia Business Registry and will in the proposed inspection tracking system use the Business Registry information to provide an up to date listing of business in the province to officers in the field. We are also planning a mail out to newly registered businesses to inform them of the health and safety laws of the province.*

4) *The tracking of training for staff was upgraded to a new computerized system in November, 2001. Training is based on requirements for mandatory, recommended and supplemental training. Five year training schedule is presently being revamped and supervisors will be responsible to see the implementation of the additional training.*

5) *Performance monitoring system continues to be expanded upon with emphasis being placed on the seven inspection items as well as individual career and personal development plans. All officers received a half day training in September, 2001 provided by the Department of Human Resources on time management, performance appraisals, and setting personal development goals.*

6) *There is a considerable cost associated with rotating officer territories, particularly in the non urban regions of the province. In urban areas we are rotating officers and will continue to consider a strategy for rural areas.*

In conclusion thank you for the opportunity to update the status of work within the Occupational Health and Safety Division and comment on the audit of our activities.

10.

ENVIRONMENT AND LABOUR - PUBLIC SAFETY

BACKGROUND

10.1 The Department of Environment and Labour is responsible for administering a significant number of Acts and regulations pertaining to public safety (see Exhibit 10.1 - page 173). Within the Department, the responsibility primarily rests with the Public Safety Division. In January 2001, as a result of a departmental reorganization, the Office of the Fire Marshal and all of its assigned responsibilities were combined with the Public Safety Division. As a result, the Public Safety Division is now comprised of four sections - elevators and lifts, boilers and pressure vessels, power engineers (referred to collectively as the 'technical sections'); and the Office of the Fire Marshal.

10.2 The Acts give the Department authority to regulate safety in areas such as boilers and pressure vessels, refrigeration plants, high pressure welding procedures, cranes, elevators and lifts, amusement devices, fire safety in buildings, fire protection services, storage of flammable and combustible materials, installation and use of fuel gases, and electricity. In addition, the Department has responsibility for certifying boiler, refrigeration and compressor plants, and for licensing and/or certifying refrigeration operators, compressor operators, power engineers and crane operators, gas handlers and communication cable installers.

10.3 The Department ensures compliance with legislation primarily through inspections of facilities and equipment, investigation of accidents, examination of plans and specifications, and setting and grading certain certification examinations. Also, the Department regulates courses offered by various training providers as a credit towards fulfilling the practical experience requirements associated with the technical trades noted in the above paragraph.

10.4 At the time of our audit, there were 2,355 elevators, 100 escalators, 12 ski lifts and 105 amusement devices licensed to operate within the Province. There were 952 steam boilers and 8,898 pressure vessels registered. In addition, there were 1,820 crane operators, 2,978 power engineers, 1,332 refrigeration operators, 144 compressor operators, 1,000 cable specialists and 1,607 gas handlers licensed to work within the Province.

10.5 The organization of the Public Safety Division is illustrated in Exhibit 10.3. Total expenditures for the year ending March 31, 2001 were $2.1 million. The Division employs approximately 40 staff.

RESULTS IN BRIEF

10.6 The following are our principal observations from this audit.

- The Department is involved in the development of many pieces of legislation and regulations, but there are no formal criteria or prioritization techniques used to identify where the need to develop new or amend existing legislation and regulations is most urgent. There are no milestones, time lines or responsibilities established once a decision is made to amend or develop new legislation and regulations.

- The application of public safety legislation and regulations is unclear with respect to offshore facilities and activities.

- There are numerous instances of non-compliance with public safety legislation. Observed deficiencies include unmet inspection and investigation requirements, failure to seek and obtain certain approvals and inadequate reporting by outside organizations to the Public Safety Division.

- There is no formal risk assessment process to determine inspection frequencies or select individual inspections. In many instances, the Division has not been able to comply with the frequency of inspections specified in legislation or policies.

- The documentation prepared to support an inspection varies considerably within the Division, and in many cases was inadequate or non-existent.

- Documentation submitted by companies to support their compliance with orders issued is often inadequate. There was also minimal or no documentation in many files to document that inspectors or Deputy Fire Marshals had verified compliance with orders issued.

- Annual reports lack substantive information on the performance of the Public Safety Division, and do not fulfil their potential as accountability documents. Certain statistics in the report of the Office of the Fire Marshal are untimely, incomplete and inaccurate.

AUDIT SCOPE

10.7 In July 2001 we completed a broadscope audit of the Public Safety Division of the Nova Scotia Department of Environment and Labour under the mandate established by Section 8 of the Auditor General Act. Our audit was conducted in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

10.8 The objectives of this assignment were to assess the Department's:

- process for developing and promulgating public safety standards;

- monitoring, inspection and other public safety activities as they relate to the requirements of legislation, regulations and/or policy;

- system for the enforcement of Provincial public safety legislation, regulations and policy;

- processes used to ensure the competency of personnel involved in public safety inspection, enforcement and certification activities; and

- accountability framework with respect to public safety.

10.9 Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 10.2. Our audit procedures included research into public safety legislation and regulations, interviews with management and staff, testing of inspection and investigation files, as well as examination of other documents.

PRINCIPAL FINDINGS

Standards

10.10 *Standards development* - At the time of our audit, the governing legislation for two areas of responsibility assigned to the Public Safety Division was being revised. The Crane Operators and Power Engineers Act was to become law on September 1, 2001. On June 6, 2000, the Fire Safety Act received first reading in the Legislature.

10.11 The development of the new Crane Operators and Power Engineers Act started in 1991 after consideration of requests from industry to have existing legislation revised. This review resulted in separate legislation for Crane Operators and Power Engineers being assented to in 1995, but Executive Council never proclaimed the Acts because regulations had not yet been developed. The delay in developing regulations was due to departmental restructuring, staff retirements, reassignment of legal resources, and additional revisions to certain sections of the new Power Engineers Act. Subsequently, the separate Acts were updated and combined into the new Crane Operators and Power Engineers Act which was to become law on September 1, 2001. At the time of our audit, regulations were being prepared to come into effect on the same date.

10.12 The Department's review of the Fire Prevention Act began in February 1996. The Fire Prevention Advisory Council, a group comprised of Provincial officials and representatives of external stakeholder groups, provides advice on fire prevention issues to the Minister of Environment and Labour. The Council was assigned responsibility for overseeing the review of this Act.

10.13 For both Acts, working groups, comprised of Provincial officials and representatives of external stakeholder groups affected by the legislation, were formed to review the draft legislation and recommend changes. The working groups met on a regular basis and conducted additional stakeholder and public consultation on the changes to the Acts. Other jurisdictions' legislation and 'best practices' were reviewed for applicability to the Provincial legislation being developed. Recommendations for changes to the Acts were submitted. Non-consensus items resulting from the deliberations of the working groups and/or Council were referred to the Minister for final resolution.

10.14 In our view, the Department has good measures for obtaining stakeholder input into the development of public safety legislation and regulations, but there are inadequacies in the Department's process for controlling the development of legislation and regulations. For example, the process to develop the new Crane Operators and Power Engineers Act described above will have taken ten years. The Elevators and Lifts Act has been in place since 1958 and requires updating in several areas. However, it will not be attended to until several other pieces of legislation and regulations are first addressed. A new Steam Boiler and Pressure Vessel Act received third reading in the Legislature on November 15, 1993 but was never proclaimed because regulations important to the administration of the Act had not yet been developed. We were informed that the legal resources required to prepare the regulations were reassigned to revising the Occupational Health and Safety Act. The Department does not know when the new Steam Boiler and Pressure Vessel Act and Regulations will be finalized.

10.15 At any single point in time, the Department is involved in the development of many pieces of legislation and regulations, but there are no formal criteria or prioritization techniques used to identify where the need to develop new or amend existing legislation and regulations is most urgent. There are no milestones, time lines or responsibilities established once a decision is made to amend or create new legislation and regulations. We were informed that a system had been in place to track legislation development, but it was abandoned due to a lack of resources needed to keep it current.

10.16 *Public education* - At the time of our audit, the regulations for the Crane Operators and Power Engineers Act were to come into effect on September 1, 2001. Once the regulations are approved by Executive Council, the Department will, as was the case for the new Act, undertake extensive public information sessions on the impact of the new regulations. Advertisements are to be placed in local newspapers throughout the Province to indicate where and when information sessions will be held. During regular workplace inspections, inspectors will provide employers with information on the new regulations. Also, information concerning the new legislation and regulations will be placed on the Department's web-site.

10.17 The process for promulgating new legislation and regulations, as described above, is extensive. Other legislation for which the Division is responsible has been in existence for a number of years (e.g., Elevators and Lifts Act - 1958, Amusement Devices Act - 1975) and does not require as extensive a public education program. For most Acts for which the Division is responsible, education is also provided through presentations at industry seminars and day-to-day contact with industry representatives. We recommended greater use of the Department's internet web-site in providing information on public safety legislation and regulations. The web-site could contain legislative interpretations, policy directives and frequently asked questions which would aid in the understanding of public safety requirements in Nova Scotia.

Compliance with Legislation

10.18 *Inspections overview* - The Public Safety Division is comprised of four sections - elevators and lifts, boilers and pressure vessels, power engineers, and Office of the Fire Marshal (OFM). Each section is responsible for the administration and enforcement of specific assigned Acts and regulations.

10.19 *Legislative jurisdiction* - The Department has a broad mandate under various public safety legislation and associated regulations. As with any Provincial law, this legislation applies to persons and businesses within Nova Scotia. However, the application of public safety legislation is unclear with respect to offshore facilities and activities. This would include production and exploratory facilities at numerous offshore oil and gas fields, as well as equipment and work on ships in Canadian waters around the Province. Clarification of public safety responsibilities for the offshore area will likely require discussions with Federal and other provincial governments and changes to existing legislation and regulations. Considering the potential for significant growth in offshore activity during the foreseeable future, we recommended that the subject of legislative jurisdiction be given close attention as soon as possible.

10.20 *Compliance with legislation* - The Department has a broad mandate under the Acts and regulations listed in Exhibit 10.1. We determined through discussions with senior management and other audit tests that there are legislative requirements which are not being met.

10.21 Under Section 7(1) of the Elevators and Lifts Act, the Department is responsible for inspecting annually all elevators, dumbwaiters, escalators, man lifts and incline lifts. The Public Safety Division has not been able to meet this inspection frequency. Paragraph 10.33 provides additional information.

10.22 Under Section 4 of the Fireworks Act, approval must be obtained from a Fire Chief when fireworks are sold or given to, or set off by, a person. This approval is generally not obtained.

10.23 We noted the following instances where there was non-compliance with provisions of the Fire Prevention Act.

- Section 9(1) - Local fire departments are responsible for investigating the cause, origin or circumstances of all fires occurring within the municipality. Division management informed us that this is not being done throughout the Province because only nine municipalities have trained fire inspectors and only one has trained fire investigators. Under the new Fire Safety Act, which was before the Legislature at the time of our audit, local fire departments will still be responsible for fire investigations, but they can request the assistance of the OFM if necessary.

- Section 11(1) - Insurance companies must submit reports to the OFM on all claims which are the result of a fire. Division management informed us that reports are not being received for every fire claim adjusted, and many of the reports received are not complete. See paragraph 10.67 for further detail.

- Sections 19(1) and (2) - Municipalities must have a system to inspect all buildings located within their area. Municipalities must inspect all hotels, theaters, cinemas, skating rinks, dance halls and places of public amusement every four months, and inspect all schools every four months during the school year. There is no requirement under the Act for municipalities to report to the OFM that these inspections have been performed. Division management believes that, if inspections are being performed at all, in most municipalities the frequency of inspections is not in accordance with the provisions of this Section of the Act. The new Fire Safety Act requires municipalities to appoint municipal fire inspectors who will be responsible for establishing a system to conduct fire inspections. However, the new Act does not specify the frequency of all inspections. If inspections are not being performed, the OFM can conduct the inspections and recover the associated costs from the municipalities.

- Section 19(4) - Every municipal council and local fire department must report any fire hazards existing in or around inspected buildings to the OFM . The OFM is receiving very few inspection reports.

- Section 28(1) - All architects, designers or owners are required to submit building plans and specifications to the OFM before construction of a building begins or an existing building is renovated. (One and two dwelling units and private automobile garages are exempted.) We were told that most building plans are not being submitted to the OFM for review and approval, and the OFM is not following up to ensure that all building plans have been submitted.

10.24 We also observed a situation where a void in safety enforcement exists because regulations and/or codes have not been updated. According to Section 3(a) of the Amusement Devices Safety Act, amusement devices are defined as devices designed or intended to entertain or amuse people by physically moving them. The regulations to the Act specify that investigations are to be conducted in accordance with a specific Canadian Safety Association code. Based on the Department's interpretation of this code, there is no requirement for the inspection of bumper boats, go-carts and water slides. However, these appear to meet the definition of an amusement device provided in the Act. Further, there are reports of accidents and injuries attributed to these devices.

10.25 *Responsibilities* - It is important that responsibilities for complying with legislation and regulations be clearly stated and communicated. In certain Acts and regulations, responsibilities are clearly stated and in other Acts and regulations they are not. For example, Section 3 of the regulations to the Amusement Devices Safety Act clearly defines the responsibilities of companies owning and operating amusement devices, whereas responsibilities for inspecting boilers and pressure vessels are not clearly stated in the Steam Boiler and Pressure Vessel Act. However, through its various activities, the Public Safety Division informs business owners and employees of their responsibilities, and there appears to be little dispute in this regard. Although there are no

formal reporting mechanisms specified in the various Acts and regulations, the Division obtains assurance that these responsibilities are being fulfilled through inspections, review of plans and specifications, initial licensing of equipment, and investigation of complaints and accidents.

10.26 *Policies and procedures* - The OFM has a policy and procedure manual which has been approved by senior management of the Department. There is a draft policy and procedure manual for the three technical sections of the Division which was prepared in 1996. With the exception of a few specific policies, this manual has not been approved by senior management. Although the manual is still in draft form, its policies and procedures are generally followed and some sections have been updated as required.

10.27 We examined the policies and procedures in both manuals and found they deal with either safety issues or areas where additional guidance was required for inspection staff and Deputy Fire Marshals. References are made to specific Acts and regulations as required. The OFM policy and procedure manual is reviewed and updated on a periodic basis. Changes to this manual are subject to an extensive internal review process. Changes to the technical sections' manual concerning licensing and inspection are generally reviewed by legal staff.

10.28 However, we found the policy and procedure manuals do not address all areas where guidance is needed. We recommended that the Division develop more comprehensive policies and procedures for both manuals, especially in areas such as the selection of equipment and businesses for inspections, accident investigations, investigation of complaints, management review of inspection reports and orders issued, reinspections, and prosecutions.

10.29 *Codes and standards* - The standards for equipment operation and maintenance and building construction are contained in various codes published by standard-setting organizations such as the Canadian Standards Association. Legislation such as the new Crane Operators and Power Engineers Act specify the codes which are to be complied with, while other legislation such as the Elevators and Lifts Act and the Fire Prevention Act do not have a complete list of applicable codes. In our opinion, the various public safety Acts and regulations should specify all applicable codes in order to provide strong legislative authority for the Department's enforcement of compliance.

10.30 Staff are informed of changes to the various codes through correspondence, staff meetings or formal training. Staff have ready access to the most recent version of the codes.

10.31 *Inspection policies* - The Public Safety Division cannot inspect all equipment and buildings every year because of the large number of inspections required under the various Acts. The frequency of inspection is specified in some Acts, including legislation which is administered by other government departments (e.g., legislation pertaining to hospitals, schools or beverage rooms). For example, the Elevators and Lifts Act and the Amusement Devices Safety Act require all elevators, lifts and amusement devices to be inspected annually. Some Acts do not specify the frequency of inspections, as in the case of the Fire Prevention Act. Inspection frequencies have been determined based upon past practices or information received from other jurisdictions or standard-setting organizations. In general, the most significant factor influencing the frequency of inspections is the number of inspectors and Deputy Fire Marshals available and the number of other tasks which have been assigned to these individuals.

10.32 We observed that there is no formal risk assessment process to determine inspection frequencies or select individual inspections. We recommended that the Division develop a systematic approach to assess the risk associated with equipment and buildings, using criteria such as the size and nature of operations, inspection history, repeat violations and previous prosecutions. This may require changing legislation which specify inspection frequencies.

10.33 In many instances, the Division has not been able to comply with the frequency of inspections specified in legislation or Department policies. Under the Elevators and Lifts Act, all

elevators and lifts are to be inspected annually. At the time of our audit, annual inspections had been performed on 436 elevators and lifts. However, 2,031 elevators and lifts had not been inspected. Many had not been inspected since 1995. However, this may not be clear to a user of an elevator or lift because no notification of inspection is posted in or on the device. There is a requirement that the annual licence to operate an elevator be posted, but this licence does not signify that an inspection has been performed during the year.

10.34 The frequency of inspections is not specified in the Steam Boiler and Pressure Vessel Act. The policy of the Section is to perform an external inspection on each boiler every two years. At the time of our audit, external inspections on boilers were not up-to-date. Of the 262 boiler inspections which were required to be performed, 132 inspections were still outstanding. In addition, there are an undetermined number of pressure vessels that will have to be inspected once all boiler inspections have been completed. The frequency of inspections is also not specified in the Stationary Engineers Act. This Section is currently undertaking the inspection of all licensed plants because many plants had not been inspected for several years.

10.35 The Division has not developed standard inspection procedures and forms for each of its sections. Inspection procedures are either specified in, or can be determined from, information contained in the codes and documents prepared by standard-setting organizations. For example, inspection procedures for elevators and amusement rides are contained in the CSA-B44 and CSA-Z267 codes issued by the Canadian Safety Association. Fire investigation procedures are described in Policy 921 issued by the National Fire Protection Association. However, the use of standard inspection procedures and forms would provide greater assurance individual inspections procedures are performed and are conducted in a consistent manner.

10.36 *Performing inspections* - The Public Safety Division's inspection functions serve to monitor and enforce compliance with the various public safety Acts, regulations and codes. Each section of the Division has divided the Province into territories, with individual inspectors and Deputy Fire Marshals (DFMs) assigned to specific territories.

10.37 For the inspection functions to operate effectively, complete and accurate listings of equipment and buildings to be inspected must be available to inspectors. The Elevators and Lifts Section and the Office of the Fire Marshal are currently updating lists of the equipment and buildings under their jurisdiction. Management of other sections of the Division believe their listings are reasonably accurate, but they will be updating equipment listings as inspections are performed.

10.38 Inspection priorities are determined by management and communicated to the inspectors and DFMs. Some inspections are assigned to inspectors and DFMs, while others are selected by the individual inspector or DFM. However, we found that priority setting was informal and short-term in nature. Also, there is little reporting to management of inspections selected by inspectors and DFMs. We recommended that management develop a yearly inspection strategy which identifies priorities for the coming year. Inspectors and DFMs should prepare weekly inspection schedules, based upon the inspection strategy, to be reviewed and approved by management.

10.39 The policy of the Division is that businesses should not be made aware of inspections in advance. Although this practice is followed in most cases, it is not practical in some situations because of the need to have a representative of the company present during the inspection, especially if testing of equipment is to be performed.

10.40 We found the documentation prepared to support an inspection varies considerably within the Division, and in many cases was inadequate or non-existent. For example, there is no documentation prepared to record the procedures performed by steam boiler and pressure vessel inspectors and by DFMs. As discussed in paragraph 10.35, procedures performed during an inspection are specified in or can be determined from the various codes. The Elevators and Lifts

Section is the only section within the Division that makes extensive use of checklists. However, this is only the case for elevator, ski lift and amusement device inspections, and the Section does not use checklists for the inspection of escalators and man lifts. The checklist for examining amusement devices needs to be updated to reflect changes to the codes. We recommended that each section of the Public Safety Division develop and use checklists to document the procedures performed during inspections, and update these checklists as changes are made to the various codes.

10.41 Inspection findings are documented in a variety of ways, including forms, reports and letters. We noted that the information provided by these documents varies and we observed inadequacies with respect to communicating the authority for an inspection, scope of an inspection, standards used to determine compliance, and an overall conclusion. Generally, some documentation is sent to companies following an inspection. However, for some inspections no documentation is prepared. We also found that many inspection reports are not signed by the inspector or a representative of the company being inspected. We recommended that the Division develop standard inspection reports and require them to be signed by the inspector or DFM who performed the inspection. A representative of the company should be required to sign and return a copy of the inspection report to indicate they have received and read it.

10.42 Compliance orders are issued for violations of the Acts, regulations and codes. We observed that most orders are not referenced to the applicable sections of the Acts, regulations and codes. We recommended that all orders be appropriately referenced so the authority for making the order is clearly identified. We recommended that the Division develop standard wording for orders so deficiencies and actions required to achieve compliance are clearly and consistently stated.

10.43 A compliance date is established for all orders issued. Inspectors and DFMs are responsible for ensuring the orders they issue are complied with by the specified date. Inspectors or DFMs can do this by requiring companies to submit documentation describing how they have complied or by performing a reinspection. During our testing of a sample of inspection files, we found that the documentation submitted by companies to support compliance with orders issued is often minimal or non-existent. There was also minimal or no documentation in many files to document that inspectors and DFMs had verified compliance with the orders issued. We also noted that no letters or forms are provided to companies which correct identified problems to inform them that they are now in compliance with the orders issued.

10.44 Because the follow-up of compliance orders was not timely in some of the files we tested, we recommended that Division management monitor the status of outstanding orders more closely.

10.45 *Monitoring of inspection activity* - The work of inspectors and DFMs is monitored through regular management contact, periodic staff meetings, and monthly reviews of activity and expense reports. The Office of the Fire Marshal and the three technical sections of the Division each have different requirements for activity or time reporting by inspectors, and reports are generally not summarized to provide monthly performance or statistical reports for the whole Division. In our view, the processes used to monitor the activities of Division staff are inconsistent and uncoordinated. We recommended that the Division implement a standard time reporting system capable of generating statistical reports which can be used to monitor the activities and performance of all inspectors and DFMs.

10.46 Public Safety Division management is responsible for reviewing a sample of inspection files and reports to ensure inspections are properly documented, proper orders have been issued, and all orders have been complied with. We found no evidence of this review in the files we examined. We recommended that guidelines be developed for the documentation, frequency and scope of these reviews.

10.47 As described above, the Division is not meeting inspection frequencies specified in legislation and policies. We believe there is a need for management of the Division to monitor the status of inspection activity very closely. However, only the Elevators and Lifts and Power Engineers Sections maintain a master list of inspections required and the date inspections were last performed. We recommended that Division management ensure the new computer systems being implemented are capable of recording needed data and producing appropriate reports so the status of inspection activities can be better monitored.

10.48 Performance standards can be used to monitor the work of inspectors and DFMs, and to identify trends and issues affecting performance. The Division has not established specific performance standards for inspectors and DFMs. Consideration should be given to developing standards for the time required to perform inspections, investigations and other activities, as well as the number of inspections which should be completed by the inspectors or DFMs on a monthly or yearly basis.

10.49 *Management information system* - The Public Safety Division uses several computerized systems. A customized licensing and inspection computer system was developed for the three technical sections of the Division. Because of numerous problems with the system, the Elevators and Lifts Section is not able to use this system and must use two older systems to record the issue of licences and the results of inspection activities. The Steam Boiler and Pressure Vessel Section is currently using the system, but there is a need for programming changes so the Section can fully utilize it, especially in the area of follow-up inspections and reporting. The Power Engineers Section is using this system for licensing and will begin to fully utilize the system once the new Crane Operators and Power Engineers Act becomes law. The Office of the Fire Marshal is in the process of implementing a computerized licensing system which is used by various fire departments and agencies throughout the country.

10.50 Paper inspection files include inspection reports and other documentation. Inspection information is also contained in the computerized systems. Some inspections are recorded in the systems individually, while others are combined and summarized before being recorded. The results of meetings and phone calls are not recorded in the systems. We recommended the Division record all activities in the computerized systems.

Enforcement of the Acts and Regulations

10.51 *Enforcement methodology* - The Public Safety Division generally has little problem in enforcing its compliance orders. In cases where compliance is not forthcoming, the Division prefers to use persuasion to enforce legislation, without resorting to the courts. Techniques include educating the business on safety threats, reinspection after an order is issued, and possibly shutting down the equipment or building being inspected. However, the various Acts contain provisions which enable prosecutions to be brought by government and penalties to be imposed by the courts. Penalties vary for each Act and range from $50 to $10,000.

10.52 The policy and procedure manual for the technical sections of the Division lists procedures to be followed when prosecution is being considered. However, the manuals were prepared in 1996 and are still in draft form, not up-to-date and have never been approved. There are no policies on prosecution in the Office of the Fire Marshal policy and procedure manual. As prosecution is uncommon, it is generally dealt with on an individual basis after discussion with Department legal staff, rather than following an established format.

10.53 *Appeal of compliance orders* - The Steam Boiler and Pressure Vessel Act, Elevators and Lifts Act, and Electrical Installations Act do not contain provisions allowing affected parties to appeal a compliance order. Every other piece of legislation administered by the Public Safety Division which involves inspections has an appeal provision. Nonetheless, the Division does accept and consider appeals from affected parties concerning orders issued under any of these Acts.

However, there does not appear to be any formal requirement to communicate the right to appeal when a compliance order is issued to an individual or business.

10.54 Appeals, depending on the Act, are initially reviewed by a Chief Inspector, Appeal Board or the Fire Marshal. After reviewing the appeal they can confirm, vary, revoke, or suspend the order(s) being appealed. Their decision is final and cannot be further appealed, except for appeal decisions under the Fuel Safety Regulations which can be appealed to the Fuel Safety Board, whose decision is final.

10.55 There is no requirement for use of a standard format for filing appeals or documenting decisions. In Sections 21 and 22 of the Fire Prevention Act and Section 51 of the Fuel Safety Regulations, specific time frames are provided for filing appeals. There are no time limits established in legislation for rendering of decisions.

Competency

10.56 *Qualifications and training* - All staff of the technical sections of the Public Safety Division have qualifications relating to the industry for which they are responsible. Staff who inspect elevators, boilers and pressure vessels, or license power engineers and crane operators have various qualifications such as Certified Engineering Technologist or Technician, Canadian Elevator Mechanics License or Professional Engineer. Staff are also required to obtain other certifications and commissions from industry or professional organizations based on their individual job responsibilities.

10.57 A record of training is maintained for inspectors employed in the technical sections of the Public Safety Division. Training involves courses related to Occupational Health and Safety, technical courses related to specific job requirements, as well as the Department's Commitment to Quality courses. All annual performance evaluations for inspectors are current, except inspectors involved with elevators. Until recently, there were only two inspectors employed in this Section and the person responsible for completing the evaluations had not received the training necessary to conduct performance evaluations. This training will be provided during the upcoming year and evaluations will be brought up to date. Training courses taken and recommended training for the next evaluation period are reviewed as part of the annual evaluation process.

10.58 The Deputy Fire Marshals received training from the National Fire Protection Association in the National Fire Protection Standards, but have not yet written the exams in order to be certified. It is our understanding that they will be required to write the exams. These standards are the minimum qualifications required to be a fire inspector or fire investigator. New staff hired into a DFM position will be required to have the certification at the time of employment. Each DFM, when initially hired, is assigned a mentor for a two-month period to assist in obtaining necessary experience in fire investigations and inspections. A record of courses taken is maintained for each DFM. These include Occupational Health and Safety courses, as well as the Department's Commitment to Quality courses. Annual performance evaluations are current. The courses taken throughout the evaluation period by each DFM and recommended training for the next evaluation period are reviewed as part of the annual evaluation process.

10.59 *Objectivity* - All employees of the Division are required to follow the government's Code of Conduct for Civil Servants to avoid conflict of interest in their daily activities. In addition, Section 4(2) of the Elevators and Lifts Act states *"no person shall be appointed or act as an inspector who has any direct or indirect interest in the manufacture, sale, installation or maintenance of elevators, dumbwaiters, escalators, man lifts or incline lifts."* Section 78 of the Steam Boiler and Pressure Vessel regulations states *"No inspector shall issue a certificate if he is interested directly or indirectly in the manufacture, erection or sale of steam boilers, refrigeration plants or pressure vessels."*

10.60 The Province is divided into territories with individual inspectors and Deputy Fire Marshals assigned to each. However, there is no policy on rotating inspectors or DFMs among the territories to help maintain the objectivity of personnel, provide opportunities for experience, and allow for different perspectives to be applied to individual inspections. The Department attempts to assign staff to territories closest to the place of residence to avoid excessive travel time and costs. We recommended that the Department more closely examine the costs and benefits of implementing a system of staff rotation, especially for areas where staff and inspection activity are more concentrated.

10.61 *External certification* - To work as a power engineer or crane operator within the Province, a certificate must be obtained from the Department. To obtain the certificate, applicants must be successful in examinations developed by the Department and have a certain number of years of practical experience which varies with the classification and type of certificate. To assist applicants in preparation for examinations, courses have been developed by the Nova Scotia Community College and the private sector.

10.62 In accordance with the Stationary Engineers Act and Regulations, the Stationary Engineers Board reviews and approves the subject matter of the course for relevance and authorizes a credit toward the practical experience requirements. Similarly, an examination committee reviews and approves the subject matter of courses for relevance to obtaining a crane operators certificate and authorizes a credit toward practical experience requirements.

Accountability

10.63 *Accountability information* - An integral part of the accountability process is providing sufficient, appropriate, understandable and timely information on areas of assigned responsibilities. Within the Public Safety Division, staff is held accountable through a formal reporting of daily activities and annual performance appraisals. However, for one section, we observed that performance appraisals are not up to date, as discussed above (paragraph 10.57).

10.64 Managers report on Section activities through frequent meetings and regular contact with senior management. Additionally, each manager holds quarterly meetings with staff, attended by senior management to discuss various issues. However, since the Division underwent a reorganization in January 2001, meetings of the whole Division have not been as regular. Senior management has informed us that the Division will meet as a group at least once a year to discuss items related to Divisional responsibilities.

10.65 The Department of Environment and Labour prepares an annual report. The most recent annual report was for the year ended March 31, 1999 and tabled with the House of Assembly on April 5, 2000. Additionally, the Office of the Fire Marshal is required to submit to the Minister, on or before April 30 of each year, a report on its activities. The OFM follows the practice of not releasing its report until it is tabled in the House of Assembly. The report for the year ended March 31, 1999 was not finalized before the spring 2000 session adjourned. The report was sent to the Minister in late October 2000, and he tabled it on November 28, 2000. We believe 12 and 19 months respectively is too long a delay for reporting on the performance of the Department and the OFM. We recommended that annual reports be prepared and tabled on a more timely basis.

10.66 Also, we observed that both annual reports lack substantive information on the performance of the Public Safety Division, and do not fulfil their potential as accountability documents. The Departmental report does contain Divisional objectives, commentary on significant events which have affected the Division, and general information on Divisional activities. The Office of the Fire Marshal's report did not contain information on its objectives. Neither report contains information on performance against stated objectives.

10.67 Further, our review of the OFM's annual report revealed certain statistics in the report are untimely, incomplete and inaccurate. The report contains statistics on insured and uninsured fire-related losses. However, certain information on fire-related losses is not being reported for certain areas of the Province on a timely basis (e.g., three-year period for 1997 to 1999 was reported at one time). Some information is being withheld by insurance companies until claims investigations are complete, and these sometimes take several years to finalize. Some information submitted by certain fire departments is incomplete. Also, information on uninsured monetary losses is sometimes obtained from persons who do not have the expertise to accurately calculate it.

10.68 These statistics and reports are considered valuable to the OFM because they provide evidence of fire trends, risk areas for inspections, and areas where education safety programs may need to be developed. We recommended that the OFM implement a quality control system to ensure that complete and accurate information is received and reported on a timely basis.

10.69 The Department's business plan is a key document used to convey its goals and strategies for the current and future years. It contains information on budget allocations, goals, core business functions, priorities for the current year, as well as outcomes and outcome measures. However, information used by the Department to measure performance is qualitative in nature. Our review of the Department's 2000-01 business plan showed no performance measures relating to public safety responsibilities or success in achieving goals of the previous year. We recommended that the Public Safety Division develop and report on performance measures and on success in meeting goals. Where possible, performance reporting should include quantitative measures compared to predetermined targets, with explanations for significant variances.

CONCLUDING REMARKS

10.70 We concluded that the Division has good procedures for communicating legislative changes and additions to those who will be affected by them. However, its process for developing new legislation and regulations should be strengthened.

10.71 There are a number of provisions of public safety legislation that are not being complied with, and there is uncertainty surrounding the jurisdiction of some legislation to offshore equipment and activities. The Division cannot always perform inspections in the time frames specified by legislation and policy. Inspections are not adequately documented in some sections of the Division.

10.72 The system for monitoring and enforcing compliance with legislation and regulations requires improvement. Documentation submitted by companies to support compliance with orders issued is often inadequate, and follow-up inspections by the Department are not timely or well documented.

10.73 The Division has the necessary processes to ensure the competence of personnel involved in public safety inspection, enforcement and certification activities.

10.74 The Division performs its internal accountability responsibilities reasonably well. There is a need to improve the accountability process as it relates to the development and reporting of performance information within the Public Safety Division, and in the Department's reporting to the House of Assembly.

Exhibit 10.1

DEPARTMENT OF ENVIRONMENT AND LABOUR
PUBLIC SAFETY DIVISION

LEGISLATION ADMINISTERED

Amusement Devices Safety Act and Regulations

Crane Operators and Power Engineers Act and related Regulations

Electrical Installation and Inspection Act and Electrical Code Regulations

Elevators and Lifts Act and Regulations

Fire Prevention Act and applicable Regulations:

- Automatic Sprinkler Systems Maintenance Regulations
- Class 1 Flammable Liquid Portable Containers Regulations
- Egress from Buildings Regulations
- Fees Payable by Companies Transacting Fire Insurance Business Regulations
- Property Insurance Fire Prevention Tax Regulations
- Fire Prevention Advisory Council Regulations
- Fuel Safety Regulations
- Portable Fire Extinguisher Control Regulations

Fireworks Act and Designation of Fireworks Regulations

Lightning Rod Act and Standardization of Equipment and Methods of Installation Regulations

Standard Hose Coupling Act (There are no regulations for this Act.)

Steam Boiler and Pressure Vessel Act and Regulations

Volunteer Services Act (There are no regulations for this Act.)

Exhibit 10.2

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of the Public Safety Division of the Department of Environment and Labour.

- *Standards* - There should be systems and procedures in place to develop and promote public safety standards on a timely basis. The Department should have knowledge of areas where public safety standards are required to be developed. There should be ongoing public education and promotion of public safety standards.

- *Compliance with Legislation* - The Department should ensure applicable provisions of Provincial legislation and regulations are being complied with. Department policies should be consistent with Provincial legislation and regulations. There should be a process in place to enable management to ensure that key provisions of Provincial legislation and regulations are being complied with. There should be a system in place to ensure that inspections are carried out on a regular and timely basis. There should be a system in place to follow up on implementation of inspection recommendations.

- *Enforcement of the Act and Regulations* - There should be a system to ensure Provincial legislation and regulations are appropriately enforced. Powers, roles and responsibility for enforcement of legislation and regulations should be clear.

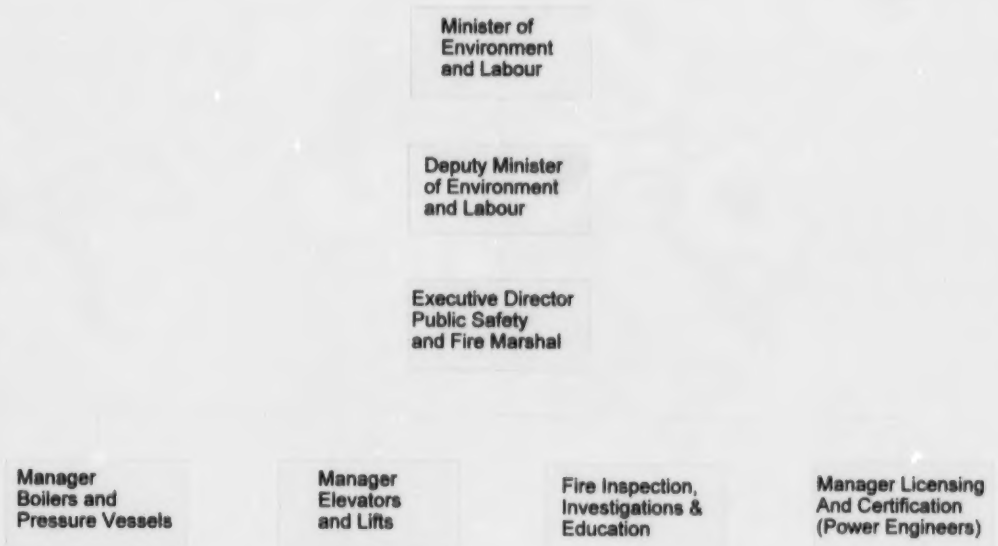
- *Competency* - Personnel should have appropriate education and qualifications to administer the laws for which they are responsible. Department policies should reflect current legislative requirements for industry safety standards. Changes to legislation, regulations and policies should be communicated to personnel on a timely basis. There should be a process to ensure personnel receive ongoing training in industry safety standards/technologies and other relative areas. There should be a process in place to ensure that individuals responsible for trade certification and training are competent.

- *Accountability* - There should be adequate systems and controls to ensure the completeness, accuracy and timeliness of information reported. There should be adequate and timely reporting to inform the Minister and House of Assembly of the Department's compliance with applicable legislation and regulations. The Department should know whether public safety standards are being implemented and having a positive impact.

Exhibit 10.3

DEPARTMENT OF ENVIRONMENT AND LABOUR
PUBLIC SAFETY DIVISION

ORGANIZATION CHART


Minister of Environment and Labour
Deputy Minister of Environment and Labour
Executive Director Public Safety and Fire Marshal
Manager Boilers and Pressure Vessels
Manager Elevators and Lifts
Fire Inspection, Investigations & Education
Manager Licensing And Certification (Power Engineers)

Other positions reporting to the Deputy Minister:

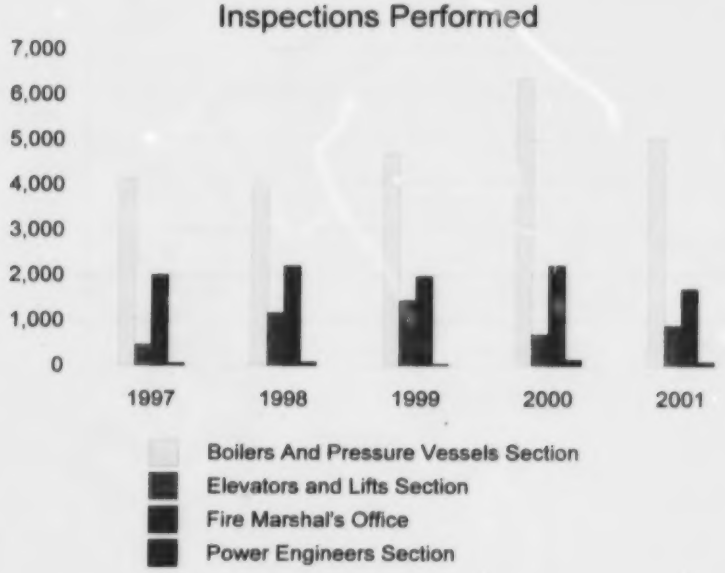
- Executive Director of Alcohol and Gaming
- Executive Director of Occupational Health and Safety
- Executive Director of Labour Services
- Executive Director of Environmental Monitoring and Compliance
- Executive Director of Environmental and Natural Area Management
- Director of Information and Business Services
- Superintendent of Pensions
- Director of Labour Standards
- Superintendent of Insurance
- Director of Policy
- Director of Communications

(*Note: This chart represents the organization of the Department at the time of our audit. Changes were made subsequent to the audit.*)

Exhibit 10.4

DEPARTMENT OF ENVIRONMENT AND LABOUR
PUBLIC SAFETY DIVISION

INSPECTION ACTIVITY



DEPARTMENT OF ENVIRONMENT AND LABOUR'S RESPONSE

The final report of the Auditor General's Audit of the Public Safety Division of the Department of Environment and Labour has been reviewed by the divisional management team.

The report in general is an accurate snap shot of the division during the period of time that the audit took place. The following is an update of information related to the recommendations and assumptions made in regards to the operation of the division.

Overview:

The report correctly indicates that the division was recently created by the amalgamation of the former Public Safety Division with the Office of the Fire Marshal. The creation of a single division has proven to be an opportunity for a more efficient and effective public safety system, e.g., a number of the issues raised in the audit were directly related to staffing and consolidation processes.

Legislative Review:

The consultation process and legislative changes required within a safety sector are lengthy because many of the proposed acts are a comprehensive change to the role of government in the public safety system. The work done by past and present safety inspectors has provided a good safety platform to build from. The changes in technology, world trade, education of professionals and trades persons and the proper placement of the responsibility for safety on the owner/operator requires a complete change in the delivery system. Policing of the safety system requires a completely different approach from that designed to deliver safety through an inspection process or risk based audit approach.

A safety system includes; safety assurance of building components, equipment and goods; proper installation and construction of these materials; proper operation of buildings, facilities and equipment; maintenance of buildings, facilities and equipment; training and certification of persons who are responsible for other individuals, buildings, facilities and equipment.

Many of the issues discussed in the audit document relate to the lack of resources available to meet legislative and best practice procedures for the development of legislation. The time lines reported are correct but do not reflect the department's desire to provide a timely updating of legislation. The number of outdated acts and regulations and process for updating legislation does prevent a short-term solution to all the acts that require changes. Legislative renewal processes are time consuming and require considerable legal, policy and administrative resources.

Standards:

The division is actively pursuing a review of all acts and regulations to ensure that the mandate is being met and that the most appropriate delivery system is being used.

1) *The Power Engineers and Crane Operators Act and regulations came into force on September 1, 2001.*

2) *The proposed Fire Safety Act has gone through a review by a select committee of the House and the Act will be reintroduced when the legislature reconvenes.*

3) *At present the division is reviewing the Electrical Act and Regulations, Elevator and Lifts Act and Regulations, Boiler and Pressure Vessel Act and Regulations. The division will proceed on each of these based upon an analysis of immediate needs.*

Public Education:

The following is an update of our activities.

1) *The education seminars and training programs for crane operators and power engineers are near completion and the legislation has been posted to the web site.*

2) *One Deputy Fire Marshal is specializing in public fire safety education.*

Compliance with Legislation:

1) *The Elevator and Lifts Act is under an active review to develop a reasonable and prudent delivery system. The former legislation was developed to respond to a low number of elevators and lifts. The requirement to inspect every elevator each year is both inappropriate and unnecessary. The new Fuel Safety Regulation requires an audit system of installations and operations. Ontario has developed a risk analysis process for the setting of the inspection frequency. We will use this program for the model for setting our own inspection requirements.*

2) *As part of the proposed Fire Safety Act, the requirement to obtain the approval of the fire chief to set off fireworks will be deleted. The fireworks regulated by the present Fireworks Act are family fireworks bought in the local stores. The federal government regulates high hazard fireworks and firecrackers. The Office of the Fire Marshall will only regulate the age of the purchaser and the storage of the family fireworks.*

3) *The last bullet in paragraph 10.23 states that plans are not being received as required by law. Previous to 1988 the Office of the Fire Marshal provided the only plans review program in the province outside of the former cities of Halifax and Dartmouth. With the adoption of the Nova Scotia Building Code Act every municipality is required to have a building official review plans. Therefore, although all the plans are not sent to the Office of the Fire Marshal, they are required to be reviewed by a building official. The proposed Fire Safety Act changes the plans approval system to a review of high life risk properties.*

4) *The review of the Elevators and Lifts Act will include the regulations for amusement devices. There is a need at some point to determine what government can regulate. At one extreme is the absence of the regulation of amusement devices which the number of deaths and injuries preclude, and at the other extreme is total regulation including play ground equipment which is neither possible nor desired. Therefore, there will be devices that will not be regulated based upon a risk/benefit analysis.*

5) *The inspection frequency for elevators has already been discussed. The proposed Fire Safety Act provides for a change to the Deputy Fire Marshals (DFMs) service demands. A number of inspections, including travel time, report writing and prosecutions carried out by the DFMs are in fact the responsibility of the municipalities. The failure of municipal units to provide a fire inspection service is placing pressure on DFMs to respond to complaints by citizens and fire officials. The division is unable to provide services to other provincial departments and also take action on what could be a serious fire safety issue.*

Policies and Procedures:

A number of the issues raised by the auditors relate to monitoring of activities and to a sound management information system and policies and procedures.

A task team will be formed in early February to update and unify all the policies related to the Public Safety Division in conformance to the integrated DEL policy program. At present policies related to reporting procedures and time management are under review.

1) *The Division is presently instituting a time management database program that will include a weekly reporting and proposed inspection program for the following week. The process is imperfect, as inspectors are required to respond to investigations, last minute requests for inspections by organizations that require immediate inspection or face serious financial issues.*

2) *The DFMs are presently developing criteria for the required input for an investigation. This will provide each individual with a guideline, based upon the severity of the incident, for the time and resources that will normally be expended.*

3) *Standardized forms including check sheets are presently being developed. The division, in cooperation with the department, is reviewing the possible use of hand held computers for inspection processing.*

Note to Inspection Frequency:

Inspectors are responsible for large areas and travel time is a serious consideration. Buildings and equipment vary in size and complexity, the report could be one page or ten pages, and the research may require one hour or a full day or longer. Setting a balanced inspection volume criterion is not simple. On average we do expect that most inspection days will produce three separate inspections and three days of inspections require at least one day of report writing.

Codes and Standards:

Both the proposed Fire Safety Act and the review of the Elevator and Lifts Act will contain a section for the clear designation of the codes and standards that must be followed.

Risk Assessment and Inspection Procedures:

The following summarizes the work being carried out to respond to the auditors concerns.

1) *Risk assessment is a critical component of safety legislation and provides a mechanism for efficient utilization of resources. Both the proposed Fire Safety Act and the review of the Elevators and Lifts Act are based upon risk management principles. The Province of Ontario has undertaken a risk assessment of elevators that will assist in the development of a new act.*

2) *There are two data systems presently being integrated by the division. Fuel and fire safety inspection and investigation activities files are based upon a civic address platform. The database for boilers and pressure vessels has been reviewed for an upgrade to improve the inspection format and should be completed by March 31. The elevators and amusements database is under development but will not be completed until a review of the legislation and the mandate of the section have been completed.*

3) *A program is presently being implemented to provide an automatic reminder for action on orders issued, based upon time and risk. The process includes an audit procedure for the manager.*

Competency of Personnel:

The training of personnel in all sections continues to meet the standard for technical inspectors. The following is an update to the Deputy Fire Marshals' certification.

1) *A new DFM has been hired with the qualifications indicated in the report.*

2) *Three DFMs have written and passed the investigator's certification.*

3) *A DFM has written and passed the inspector's certification.*

4) *Both programs have been obtained from Manitoba and all staff will be trained and required to write the certification exams.*

5) *One DFM is presently completing Ontario's public educator's certification for fire safety. He is also certified to counsel youth fire setters.*

6) *All divisions are carrying out personnel performance appraisals.*

Accountability:

The Annual Report of the Fire Marshal will be up to date for the spring sitting of the House.

1) *A staff person has been hired to maintain the report and have it published in a timely manner.*

2) *The Director is presently meeting with the insurance industry to attempt to obtain timely information. The industry is concerned that the government's Freedom of Information and Protection of Privacy Act will provide a vehicle for litigants against them to obtain information that would harm their position in a civil matter.*

3) *With the creation of the Halifax Regional and the Cape Breton Regional Fire Services information from some departments within those jurisdictions has been difficult to obtain. Staff has provided training to the Halifax Regional fire officers and is working closely to develop a reporting system. We will be approaching Cape Breton Region next for their assistance.*

Note to Paragraph 10.60:

The concept of rotating inspectors is normally a good concept both for program as well as management practices. The divisional inspectors are responsible for regions and to decrease travel time and costs they live in the region. The costs and family disruption required to rotate inspectors is not in the best interests of the division. We believe that better auditing and quality control by management would be a more effective solution. There are advantages in rural Nova Scotia to familiarity with owners and operators by creating safety partnerships. There are periodic rotations created when staff fills in for each other, when required, such as during vacation periods.

11.

FINANCE - TREASURY MANAGEMENT SYSTEM

BACKGROUND

11.1 One of the Department of Finance's goals, as described in their Business Plan 2000-01, was

> *"To achieve effective money management that maximizes return on investments and minimizes debt servicing costs, within acceptable risk tolerances."*

11.2 This function is commonly referred to as treasury management and is one of the responsibilities of the Investments, Pensions and Treasury Services (IPTS) Branch of the Department of Finance.

11.3 In carrying out this responsibility, the IPTS Branch processes billions of dollars per year in transactions. IPTS responsibilities are listed below.

- Daily cash management, which involves consolidating all of the Province's bank transactions in a single account and then investing any surplus in short-term investments or borrowing in short-term debt to cover any cash deficits.
- Management of the investments in the trust funds of the Nova Scotia Teachers' Pension Fund and the Public Service Superannuation Fund, as well as numerous smaller Trust funds.
- Management of the long-term debt of the Province, including the preparation and issuing of debentures and the management and control of the Sinking Funds.
- At March 31, 2001 the Province's balances were $13.2 billion in consolidated fund gross debt and $3.1 billion in sinking fund investments.
- In the fiscal year ending March 31, 2001, the Branch processed approximately 6,700 transactions totalling approximately $58 billion.

11.4 In 1998, the Branch issued a Request for Proposals for a treasury management system and in 1999 acquired the "Millennium" software package. The purpose of this software is to assist Branch staff in the management of the cash, investments and debt that comes within their control.

RESULTS IN BRIEF

11.5 The following are the principal observations from this audit.

- Good procurement practices were followed in the acquisition of the treasury management system, and Millennium was the lowest priced of those systems proposed in response to the Request for Proposals.
- Millennium generally meets the requirements outlined in the Request for Proposals. The only exceptions were that there is no direct interface with the Province's central

financial management system and a small number of particular types of transaction are not accurately processed by Millennium and require some manual processing.

- No post-implementation review for the acquisition of Millennium has been conducted.

- Controls over daily cash management are adequate to ensure the safeguarding of Provincial assets.

- Controls over long-term investments are adequate to ensure the safeguarding of Provincial assets.

- Controls over long-term debt management are adequate to ensure the safeguarding of Provincial assets. However, the Debt Management Committee met only once during the period of our audit. Control would be enhanced if meetings were more frequent. We understand that meetings have been more frequent during the current year.

- Controls over the general computer environment of Millennium are adequate. One exception is the lack of business continuity and contingency plans. In particular, the lack of an agreement between the Branch's management and the management of the Resources CSU IT Section on recovery procedures in the event of a major disaster could lead to delays in the resumption of operations.

- Our tests of system process controls indicate that reasonable controls to ensure completeness, accuracy, authorization and an adequate management trail are in place. Improvements could be made by implementing a direct interface with SAP. We found no errors in our testing, but any manual transcription of data is inherently error prone.

AUDIT SCOPE

11.6 The objectives of this assignment were to:

- assess, under Section 8 of the Auditor General Act, whether or not the controls in place over the treasury management function are adequate to safeguard and control public property;

- form an opinion on the general information technology environment of the Treasury Management functions, including the adequacy of business continuity and contingency planning;

- form an opinion on the adequacy of the system process controls over the functioning of Millennium; and

- form an opinion on the economy and efficiency of the process used to acquire and implement Millennium.

11.7 Audit criteria developed for this assignment were discussed with senior management of the IPTS Branch prior to the start of the audit.

11.8 In addition to controlling treasury-related assets and liabilities of the Province, the IPTS Branch administers assets in various trust funds, most notably the Public Service Superannuation Fund (PSSF) and the Nova Scotia Teachers' Pension Fund (TPF). All assets and liabilities controlled by the IPTS Branch, including the various minor trust funds, were subjected to examination.

11.9 Our approach to the audit of the Branch was to divide its functions into three areas and examine separately the systems and controls for each. The functional areas were:

- the daily management of cash, bank accounts and short-term instruments, both liabilities and assets (Daily Cash Management);
- all funds managed or supervised on behalf of the PSSF and the TPF as well as sinking funds and other core government assets (Long-term Investment Management); and
- all government long-term liability instruments (Long-term Debt Management).

11.10 Millennium is used in each of the above three functional areas. Its integration into the control structure of each was considered in the applicable audit section. The general computer controls and the process controls were considered separately. We also examined the acquisition process for Millennium.

11.11 Our audit approach included interviews with staff of the Branch and detailed examination of contracts, files, reports and other documentation. The systems and controls were reviewed and tested for the period from April 1, 2000 to March 31, 2001. The Millennium project was examined from the commencement of the project in February 1998 to November 2001. Future plans for implementation of additional functionality and other additional work on the software were also reviewed.

PRINCIPAL FINDINGS

Acquisition of the Millennium System

11.12 Management indicated that by 1998, the IPTS Branch of the Department of Finance was maintaining records of over $6 billion in assets and over $10 billion in debt on various spreadsheets and databases. Management felt that an automated system would be more efficient, accurate and cost effective. A Request for Proposals was issued in January 1998 soliciting proposals for "*....a software system which has been specifically designed to handle the unique operations and activities of modern treasury functions.*" From the proposals received, four were short-listed and extensively examined, including being asked to provide a one-day demonstration. From this process, the committee, formed to evaluate the responses, made a recommendation to the Deputy Minister of Finance on January 21, 1999 that Millennium be purchased. This was approved and Millennium was implemented, beginning operations in November 1999.

11.13 In general, the procedures carried out by the Branch in the acquisition of the Millennium treasury management system were appropriate. In particular, the examination of the short list of proponents was very thorough.

11.14 While the implementation was successful in most major areas, two major and a number of minor items remain outstanding. The system, as of the date of writing this Report, still does not have a direct interface with the Province's central financial management system. Also, certain types of transactions are not accurately processed by Millennium leading to the continued use of a

manually updated spreadsheet to budget for cash requirements from interest payments and maturing debt. As these were significant factors in the proposal to implement an automated system, they should be addressed as soon as possible.

11.15 Similarly, no post-implementation review has been conducted. Without such a review, management cannot evaluate the success or failure of a project and thus cannot properly plan for future systems projects and related requirements. The system has been in use for three years, and there are no plans as yet for a formal review of its operations.

11.16 We recommend that a post-implementation review be conducted to establish a sound basis for appropriate future planning for Millennium.

Daily Cash Management

11.17 The government has numerous bank accounts at various locations throughout the Province to allow departmental branch offices to deposit public money they have collected, on a timely basis. By arrangement with the banks, the funds in these locations are transferred at the end of each day to central bank accounts. Through those same central accounts, the cheques and other payments by government are processed, as are cash transfers or receipts from other levels of government and from investment transactions. Every day, the Cash Management Services Division of the IPTS Branch consolidates the surpluses or overdrafts of these accounts into one central account showing the net cash position for that day. If the net cash position is a surplus, funds are invested; if an overdraft, funds are borrowed. This trading takes place in the short-term money market.

11.18 To effectively function in the money market, traders must be authorized to buy and sell with other traders without specific approval for each deal. An opportunity to buy or sell may only be open for a few minutes and any formal pre-approval process would significantly inhibit the operational efficiency of the traders. Consequently, control and accountability is maintained by a series of post-trade reviews and checks.

11.19 We examined the functioning of the daily cash management process and concluded that controls are adequate to ensure the safeguarding of Provincial assets. Examples of the more significant key controls are identified below.

- Transfers of deposits to the central accounts are automatically undertaken by the banks.
- Regular reconciliations are performed by the various departments and the Branch to ensure the accuracy of the transfers.
- The money market trading process is well supervised.
- Investment policies formulated by the Credit Sub-committee of the Debt Management Committee place limits on investments. The actual portfolio is compared to these limits on a daily basis.
- Transactions are reviewed by senior management and all actual transfers of funds or instruments are controlled by an external custodian. This external custodian provides reports of transactions and only performs the transaction upon receipt of matching instructions from both the government's trader and the counterparty's trader.
- There is appropriate segregation of duties within the Branch.

Long-term Investments

11.20 The Branch is responsible for managing the investments of the Public Service Superannuation Fund, the Nova Scotia Teachers' Pension Fund and the sinking funds for the Province's various debt issues. As cash is received from various sources, it is transferred by the daily cash management process to the designated custodian for each fund.

11.21 We examined the functioning of the long-term investment process and concluded that controls are adequate to ensure the safeguarding of Provincial assets. Examples of the more significant key controls are identified below.

- Funds are transferred directly to the government's central bank accounts, and are reconciled as described in the daily cash management process.
- One internal and nineteen external managers are responsible for the investing of the funds to maximize the return on investment, in accordance with the established investment policies.
- Monthly reports, comparing the performance of all managers against industry benchmarks, are prepared and reviewed by management of the Branch.
- Market conditions are monitored and changes in asset mix are made to ensure compliance with the government's investment policies. The investment policies are also regularly reviewed by senior management to ensure continuing appropriateness.

Long-term Debt

11.22 Every year, the Province issues new long-term debt to roll over maturing instruments, as well as cover any cash deficits that may arise.

11.23 We examined the functioning of the long-term debt management process and concluded that controls are adequate to ensure the safeguarding of Provincial assets. Examples of the more significant key controls are identified below.

- Every year, an estimate of the total borrowing requirement is published as a part of the budget process. This takes into account maturing long-term debt, cash flow, the government's projected results and other planned operations. This planning supports the Branch's efforts to issue debt at optimal times.
- Debt issue always involves extensive consideration of numerous factors, and we found that these were well documented.
- A Debt Management Committee, chaired by the Deputy Minister of Finance, and consisting of senior Branch management is in place and monitors compliance with the debt management policies. During the period of our audit, this Committee met only once. More frequent meetings of this committee would be appropriate. During the current fiscal year, the committee has met more often.
- All debt issues meet legal requirements including Executive Council approval.

General Computer Controls

11.24 The Investments, Pensions and Treasury Services Branch does not maintain its own information technology (IT) infrastructure. That service is provided by the Resources Corporate

Services Unit (CSU), IT Services Division in accordance with government policy concerning the provision of IT services. Our examination looked at the controls in place over the infrastructure relating to Millennium. This software and its related databases are maintained on a dedicated network server at the Department of Finance and are accessed over the Department's Local Area Network (LAN).

11.25 Access to Millennium is controlled first by the network access control system of the Department of Finance's LAN, by limiting access to the directory where the Millennium software files reside. Subsequent control is by Millennium's own access control system. We reviewed this access control system and found the controls to be adequate.

11.26 The network file server on which Millennium resides is located in an appropriate location, with good physical security, appropriate fire prevention systems, and appropriate backup power sources.

11.27 The system databases are backed up daily and stored off-site. Monthly, a set of data is stored in an off-site archive location. This backup system is appropriate to allow easy recovery from minor processing problems. In the event of a major disaster, it would allow recovery once a processing location and hardware had been established.

11.28 The Branch does not have written business continuity and contingency plans. While Millennium and its related databases can run on any personal computer, and as an adequate backup process is in place, the technical process of restoring the operations after an interruption ought to be straight forward. However, a written, formal plan is still desirable. Such a plan can ensure that no aspect of business resumption is overlooked.

11.29 One aspect of business resumption that has not been addressed is the lack of a formal agreement between the Branch's management and the management of the Resources CSU IT Section on recovery procedures in the event of a major disaster. As mentioned above, the technical process of restoring the operations ought to be straight forward, however the failure to establish a priority for the restoration of operations could result in significant delays. In the event of a major disaster, the IT Section will have many conflicting demands on its services. Treasury Management may not be the government service that would have the highest priority for the restoration of its computer services, and management of the Branch has stated that they could operate for a time without a computer system. Those factors notwithstanding, the priority should be determined and an agreement reached with Resources CSU IT Section concerning restoration of services in the event of a service interruption.

System Process Controls

11.30 Millennium is primarily transaction capture software. Its function is to accurately record trades and transactions and to summarize these transactions into various reports.

11.31 The results of our tests indicate that controls over completeness, accuracy, authorizations and the management trail are reasonable. Examples of the more significant key controls are identified below.

- A trade that is entered is independently verified and then approved by senior management.
- Millennium calculates the appropriate values from trade information to verify the accuracy of the trade details.

- Once verified and approved, a trade can only be altered by the System Manager.
- A hard copy (paper) record of the trade is sent to the custodian who verifies the trade data against the counterparty's data.
- A signed, hard copy of the trade is retained and filed.
- Trades and transactions are reconciled to external confirmations at least monthly.
- Logical access controls (e.g., passwords) effect an appropriate segregation of duties within Millennium.

11.32 The process controls could be improved if the data from the transactions was automatically summarized for input to SAP. While no transcription errors were found across the examination period, any data manually transcribed is subject to the possibility of error.

CONCLUDING REMARKS

11.33 Millennium was acquired in an appropriate manner and has been generally well implemented. A post-implementation review should be performed to provide management appropriate information to facilitate an evaluation of the system to support future planning.

11.34 Management of daily cash , long-term investments and long-term debt is all generally well controlled. Better record retention has improved controls.

11.35 A formal business continuity and contingency plan should be developed. In particular, an agreement with the Resources CSU IT management, regarding the relative priority of restoration of Millennium operations in the event of a disaster situation, should be developed.

11.36 System process controls in Millennium provide for the completeness, accuracy and authorization of transactions, as well as adequate management trails. However, controls could be improved in the transfer of data to SAP which currently is done manually.

12.

JUSTICE AND HEALTH - CENTRAL NOVA SCOTIA CORRECTIONAL FACILITY AND EAST COAST FORENSIC PSYCHIATRIC HOSPITAL

BACKGROUND

12.1 *The project* - In 1994 a government report noted that Nova Scotia had not made any significant investment in correctional facilities since 1975 and there was an overcrowding crisis in the Province's nine adult jails. It was subsequently determined that 14% of bed-space was double-bunked style (i.e., two offenders to a cell) and 58% was dormitory style (i.e., more than two offenders to a cell). Also, correctional facilities were generally very old, with two being over 100 years in age, and not designed for maximum safety.

12.2 The need for expanded forensic facilities in Nova Scotia has been recognized in a variety of reports since 1971. At the time of our audit, the Nova Scotia Hospital (now part of the Capital District Health Authority) was caring for more patients than its forensic unit was designed for, and female and male patients were being accommodated on the same floor. A number of patients were being treated outside of the Province.

12.3 In August 1995 government approved a process to replace the old, overcrowded jails. However, a directive from Executive Council stated that any new corrections facilities had to be built and operated within current budget limits, and no projects were to increase the debt of the Province. To accommodate this directive, any facilities planned had to be constructed and owned by a private sector entity, and leased back to the Province under terms that would permit the government to record the transaction as an operating lease. In effect, it would have to be done under the structure of a public-private partnership (P3).

12.4 In May 1997 a Custody Configuration Plan was completed that outlined a number of options, including locating a psychiatric forensic facility on the same site as a correctional facility. In December 1999 government signed agreements with a private consortium to design, build and own a correctional and forensic facility in the Burnside Industrial Park, Dartmouth, Nova Scotia. The Province agreed to lease the facility and also make payments based on the consortium's cost to maintain the facility. The lease has an initial term of 25 years, with an option to purchase the facility or renew the lease for an additional five years. The final agreement between the Province and the consortium put the cost of the facility at $60 million. Construction was completed and the facility was occupied by the fall of 2001.

12.5 The two primary units of the new facility were named the Central Nova Scotia Correctional Facility and the East Coast Forensic Psychiatric Hospital. The facility is sited on 66 acres of land in the Burnside Industrial Park in Dartmouth. It has 272 beds for corrections use, including a separate unit to accommodate up to 48 female offenders. There are 92 beds for forensics use, including a mentally-ill offender unit which can accommodate up to 24 patients. The complex consists of a one-story 81,000 square-foot forensics building, joined by a 34,000 square-foot common services unit to a 138,000 square-foot corrections building. The facility will be the first of its kind in Canada, with corrections and forensics sharing rooms and services such as a chapel, hearing room, kitchen, laundry, gymnasium, heating and mechanical plants, pharmacy, as well as health and security services.

12.6 *Correctional centres* - Provincial correctional centres accommodate criminal offenders who have been sentenced to custody for a term of less than two years, as well as persons awaiting trial, sentencing or transfer to a Federal institution. Offenders to be incarcerated for longer terms go to a Federal institution.

12.7 In 1986 Nova Scotia was the last province in Canada to assume administration of its county jail system. The Province assumed responsibility for certain county jails and provided municipalities the right to purchase a facility if it was subsequently closed by the Province. When the Custody Configuration Plan was completed in 1997, there were nine Provincial jails (Exhibit 12.2). The Guysborough correctional centre was closed in 2000. During the following year, adult correctional centres in Lunenburg, Waterville, Truro and Halifax were closed and resident offenders were transferred to the new correctional facility in Burnside Industrial Park.

12.8 Adult correctional centres cost $19.8 million to operate in 2000-01. $14.7 million was recovered from municipalities, for a net operating cost to the Province of $5.1 million. The 2001-02 budget for adult correction centres was $20.6 million, with $15.0 million recoverable and a net operating cost to the Province of $5.6 million. This amount includes the amortization costs of the new adult correctional facility. The new facility will be staffed by 130 personnel and provide 272 beds. The facility will replace four correctional centres which were staffed by 212 personnel and provided 334 beds.

12.9 *Psychiatric forensic facility* - The only secure psychiatric forensic facility in Nova Scotia before the construction of the new forensic and correctional facility was located at the Nova Scotia Hospital in Dartmouth. The Nova Scotia Hospital is a part of the Capital District Health Authority. Forensic facilities treat patients who have a mental illness and are in conflict with the law.

12.10 Changes to the Criminal Code of Canada in 1992 increased demand for forensic services, and two renovations at the Nova Scotia Hospital increased the capacity of the forensic facility from 12 to 40 beds. In March 2001 the Nova Scotia Hospital had 94 forensic patients. Thirty-seven patients were resident at the Hospital and 12 patients found 'not criminally responsible' were under the care of a psychiatric forensic facility in Montreal because the Nova Scotia Hospital did not have the capacity to care for them. Two patients were under the care of a Halifax hospital and the remaining 43 patients were living in the community under out-patient care by psychiatric health care workers.

12.11 The new forensic facility will be staffed by approximately 130 personnel and will provide 92 beds, including a mentally ill offender unit and two transition houses. The facility will replace the existing forensic unit at the Nova Scotia Hospital which is staffed by 80 personnel and provides 48 beds. It will also provide treatment for patients found 'not criminally responsible,' which will allow for patients previously treated outside of the Province to be treated in Nova Scotia. The Nova Scotia Hospital forensic program cost $6.4 million to operate in 2000-01. It is budgeted to cost $8.2 million in 2001-02, which does not include approximately $2.2 million of amortization costs.

RESULTS IN BRIEF

12.12 The following are the principal observations from this audit.

- We believe accountability for the project would have been improved if government had provided timely, comprehensive reporting of project status or other significant information to the House of Assembly. For example, there was no detailed reporting to the House on the $22.0 million increase in the cost of the new facility.

- Project goals and processes were consistent with department and government goals and policies, and provided clear expectations for the project.

- Organizational structures and processes were established near the beginning of the project and were improved as the project progressed.

- Government chose a facility site in Bedford rather than a site recommended by staff, and the extra cost for the land is estimated at about $1.0 million. The subsequent change in site location from Bedford to Burnside cost the Province at least an extra $3.1 million.

- The Province did not compare the anticipated cost of the P3 project to the cost of undertaking the project conventionally. Draft Provincial guidelines for P3 projects recommended that public sector comparators be prepared when significant capital projects are being planned.

- The government structured the project as a P3. We did not see significant benefits being realized by government in structuring the project this way. The government did not transfer significant amounts of risk to the private sector that it would have borne if it had built and owned the facility itself. We also identified certain additional costs, risks and uncertainties incurred by government as a result of using the P3 process in place of a more traditional method.

- There should be a post-completion review to assess the project. The knowledge gained and observations made could benefit future government projects.

- The Province paid approximately $350,000 to the developer to the end of September 2001 before the facility was fully occupied.

- The project was a cooperative effort of several government departments and related entities. Although numerous committees existed throughout the project and a project office was established, we could not determine the full financial cost of the project over the period from 1995 to 2001. We tabulated approximately $5.5 million of project-related costs in addition to the cost of $60 million to construct the facility (Exhibit 12.5), but we do not believe we have identified all such costs.

- In planning the correctional facility, the Department of Justice reserved surplus government equipment and thereby limited its cost of new furniture and equipment to approximately $104,000.

AUDIT SCOPE

12.13 In the fall of 2001 we completed a broad scope audit of the correctional and forensic facility project in accordance with Section 8 of the Auditor General Act. The objectives of the assignment were to review and assess:

- the accountability structure and reporting practices established for the project, both internally within departments and externally to government and the House of Assembly;

- the adequacy of project planning; and

- the management and control processes established for the project.

12.14 Audit criteria were developed to assist us in the planning and conduct of the audit. We presented the criteria to various senior government officials who agreed that they were appropriate criteria for the audit. The criteria are described in Exhibit 12.1.

12.15 As part of this assignment, we interviewed staff of the Departments of Justice, Health, Finance, and Transportation and Public Works, and the Nova Scotia Hospital to gain an understanding of the construction project. We examined plans, minutes, contracts, invoices and numerous other documents relating to the project.

PRINCIPAL FINDINGS

Accountability

12.16 *Project authorization* - Government, through Executive Council, has authorized each major stage of the project. In July 1995 government gave approval to hire consultants to plan for a business solution to the problem of old, overcrowded jails. In June 1996 Executive Council approved contract negotiations with a private consortium to plan a new configuration of correctional institutions and services to replace the existing Provincial system of nine adult offender institutions (Exhibit 12.2). In December 1997 Executive Council directed that only one central collocated correctional and forensic facility would be pursued, rather than a complete Provincial system. In June 1998 Executive Council declined a request to purchase 60 acres of land at Rocky Lake (Exhibit 12.3). In July 1998 Executive Council approved the purchase of 960 acres at Jack Lake in Bedford. In April 1999 Executive Council approved agreements with a private consortium to design, construct and own a correctional and forensic facility at Jack Lake. In October 1999, after a Provincial election, a new Executive Council approved a land swap and changed the facility location to the Burnside Industrial Park (paragraphs 12.42 to 12.48 provide more discussion of site selection).

12.17 *Roles and responsibilities* - Key roles and responsibilities were defined and understood. From 1995 to April 1999, management of the Departments of Justice and Health and the Nova Scotia Hospital attended various project committee meetings and were assisted by other government staff when required. In April 1999, when the initial agreements were signed with the private consortium, a government project manager position was created to coordinate the design finalization and construction phases of the project. This position was superceded in December 1999 by an independent Project Office, under the direction of a Project Director who coordinated and oversaw construction and completion of the facility. The Project Director chaired a Leadership Committee which consisted of management personnel from Justice, Health and the Nova Scotia Hospital, as well as various experts when required. The Project Director reported to a Steering Committee of senior executives from the Departments of Justice and Health, and the Nova Scotia Hospital. The Steering Committee had final project authority. Several project teams and sub-committees were also established, with responsibility for different facets of the project (Exhibit 12.4).

12.18 *Project reporting* - Throughout the project, from 1995 to 2001, department managers provided over 50 presentations, submissions or memoranda to the government's Priorities and Planning Committee and Executive Council. We understand that department senior managers also advised their respective Ministers and Deputy Ministers on the project's status on a regular basis, but documentation from such briefings was not always retained. Although status and information was reported within departments and to Executive Council, there was no timely comprehensive reporting of project status or other significant information by government to the House of Assembly. In our opinion, a good system of accountability should provide the House of Assembly and public with information on the status of major government projects.

12.19 Although most construction costs were incurred by the private consortium, there were significant costs to the Province in addition to lease and other payments to the developer. For example, the cost of the project office, civil servant salaries, and moving costs were paid by the Province. We found there was no separate reporting of such costs within departments, to Executive Council, or to the House of Assembly. We believe that there should be systems and controls to ensure such information is reported completely and accurately. Throughout the audit, we enquired about such costs and tabulated approximately $5.5 million of project-related costs over the 1995 to 2001 period (Exhibit 12.5). However, we do not believe our tabulation has captured all such costs and the total may be understated by a material amount.

Project Planning

12.20 *Background* - In July 1995 government gave approval to proceed with a process to develop a plan to address the Province's correctional centre problems. A consultant was hired to develop a Call for Proposals and to prepare evaluation criteria for bids received. In October 1996, after evaluation of bids received, the Province entered into an agreement with a private consortium to develop a plan for a new configuration of correctional institutions to replace the existing nine Provincial adult correctional facilities. In May 1997 a Custody Configuration Plan was completed. It outlined a number of options, including locating a psychiatric forensic facility on the same site as a correctional facility.

12.21 The government chose not to replace all existing corrections centres. Upon completion of a Request for Proposals (RFP) process to select a private partner to build just the central collocated forensic and corrections facility, the cost estimate increased from $35.7 million noted in the Custody Configuration Plan to $57.7 million (Exhibit 12.6).

12.22 *Project planning* - Throughout the planning process, project goals were consistent with both department and government goals and policies, and the project was included in planning documents such as *Government By Design* and annual government budgets. Finalized plans were reviewed and challenged by senior management from all departments participating in the project. Project goals, such as providing a safe, secure environment for offenders and patients and managing the cost of corrections programs, were specific and stated in a manner to enable measurement of success. Extensive research was conducted and the detailed Custody Configuration Plan provided several options to address the Province's adult custody and forensic needs. Consultations were held throughout the planning process with concerned government departments and agencies, as well as significant stakeholder groups. Life-cycle costs of the new facility were estimated and compared to the actual recent costs of existing facilities. Cost alternatives were evaluated and economies of scale were employed wherever possible.

12.23 Project plans were detailed and addressed factors such as goals and objectives, responsibilities for project leadership, technical specifications and standards, and time lines with specified milestones and deliverables. Technical specifications for the facility were designed to be in accordance with applicable requirements including the National Building Code, Nova Scotia Building Code, hospital standards of the Canadian Council of Health Services Accreditation, Canada Criminal Justice Association Manual of Prison Standards, American Correctional Association Standards for Local Detention Facilities and the National Fire Code of Canada.

12.24 Project plans were updated on a timely basis for significant changes. All major changes prior to December 1999 were formally approved by the departments involved and Executive Council. After December 1999, plan amendments received approval through a change order process which involved the Project Office, as well as staff of the various departments involved.

12.25 *Cost of facility* - Briefing documents for Executive Council dated December 16, 1997 stated that project costs totaled $35.7 million, including all land, equipment, professional fees and other costs. The documents noted that the authors were "*highly confident in $35.7 million estimates*" [sic]. On July 30, 1998 the Province issued a Request for Proposals for development of the facility. On September 9, 1998 the Department of Justice publically announced that Jack Lake would be the site for the correctional and forensic facility and construction was expected to cost the developer $35.7 million. On November 26, 1998 three proposals with cost estimates ranging from $56.0 million to $58.5 million had been received in response to the Request for Proposals. On April 14, 1999 the Department of Justice publically announced that government had entered into a development agreement with a private consortium valued at $57.7 million. We could find no reporting by government to the House of Assembly or the public at that time regarding the cost increase of $22.0 million during the eight-month period. We believe that reporting would have been good accountability due to the significance of the change in commitment of public funds. In October 1999 the project site was changed from Jack Lake in Bedford to the Burnside Industrial Park and the December 1999 amended development agreement indicated the facility was then valued at $60.0 million (Exhibit 12.6).

12.26 During our audit, we were provided with reasons for the cost increase. One reason was that the 1997 Custody Configuration Plan costs were based on 'Class D estimates' which were acknowledged to be only accurate to plus or minus 15%. A second reason was that the facility design was based on square footage which should have, but did not, appropriately allow for the geometry of wedge-shaped living units. The design parameters of the project could not be changed to allow for the error because specified clear sight-lines were integral to the safe operation of the facility. We understand this error in design accounted for an additional 35,000 square feet. Other design errors resulted in inadequate space for the boiler, laundry and mechanical rooms. The design errors were brought to the Province's attention in a November 1998 letter from a developer. However, we did verify these explanations and do not express an opinion on their accuracy or completeness.

12.27 We enquired whether an accounting for the project cost increase of $22.0 million had been prepared to quantify the explanations described above. Staff could present no information which specifically accounted for the $22.0 million increase in project cost. We prepared an estimate based on interviews and other information we accumulated during the audit (Exhibit 12.6). We cannot be certain we have accounted for all relevant factors and costs.

12.28 *Public Private Partnership (P3) process* - Because the Department of Justice was required to construct the new correctional facility without spending more than had been provided in the budget, and without adding to the debt of the Province, government sought a private partner to design, build and own a facility that would be leased to the Province.

12.29 P3s are characterized by a formal relationship between government and a private sector partner which results in sharing of the costs, risks and rewards of a project. When the Province first explored the potential for P3s years ago, there were no policies or guidelines. A discussion paper titled *Transferring Risk in Public/Private Partnerships* was subsequently released by the Department of Finance in November 1997. Draft Provincial guidelines for managing P3 projects were later issued in February 2000. Earlier drafts of these guidelines were available when the final agreements for the forensic and correctional facility were being negotiated in 1999.

12.30 The Department of Finance's 1997 discussion paper and 2000 guidelines outline three key components of a successful P3 project:

- *Business case* - A business case should be developed before a Request for Proposals is issued. The business case should address the need for the project in the context

of overall Provincial strategies. It should also provide a preliminary assessment as to whether value is likely to exceed cost.

- *Public sector comparators* - The value of a project should be measured against the net cost (on a net present value basis) of undertaking the project conventionally.

- *Valuing risk* - The Province should ensure that the value of the risk transferred to the private sector outweighs any extra costs to government under a P3 arrangement compared to the cost of undertaking the project conventionally. The Province should also be mindful of incremental risks it may have assumed by not using conventional means. If the benefits can be shown to exceed all incremental costs, the project should be considered.

12.31 We have a number of observations on the P3 arrangement for this project as they relate to the three key components described above.

12.32 Our review of planning and other documents led us to conclude that the business case was well established for the original plan to replace all correctional centres in the Province. A number of studies and reports were prepared and the May 1997 Custody Configuration Plan provided analysis and evaluation of various project options.

12.33 However, the plan did not provide public sector comparators. After government decided to build only one central facility, additional analysis was prepared comparing costs to the Province of building versus leasing. The analysis was not sufficiently detailed and complete. It assumed capital costs of $35.7 million for the joint facility based on the original plan, although this came from an analysis assuming a configuration of four Provincial facilities and significant economies of scale. The analysis was also presented in terms of the impact on multi-year budget estimates rather than net costs on a net present value basis over the life of the project. We were informed that there was no formal analysis of the advantages of a P3 arrangement in comparison to Provincial financing and construction of the facility. Further, the cost and benefits of proceeding with the P3 approach were not reevaluated when, as a result of the Request for Proposals process, it was evident that the facility cost estimate had increased to $57.7 million.

12.34 We noted the Province was not successful in transferring significant amounts of risk which normally would have been borne by the Province to the private consortium. The major risks transferred to the private consortium are the design, construction and residual value risks. Design risk is the danger that a construction project has major architectural, engineering or other design flaws. Construction risk supposes that a project may not be completed as designed, on target and on budget. Residual value risk addresses the chance that a property may have a market value at the end of a lease term which is different than that used in the calculation of lease payments.

12.35 In the case of the forensic and correctional facility project, the transfer of design and construction risk could have been accomplished without a P3 arrangement by tendering procurement of design and construction services from the private sector and requiring the vendors to guarantee their service. Although the 1997 Department of Finance discussion paper on transferring risk indicated P3 partners should have at least 15% residual risk. The residual value risk on this project is limited to 10.47% of the initial investment in the building, since the private consortium will have recovered 89.53% of their investment at the end of the 25-year lease term. The facility should have some value at the end of the lease term, but if the Province does not renew the lease and the building cannot be sold by the consortium or cost-effectively renovated for alternative use, the related risk would remain with the consortium. Furthermore, the Province assumed extra risk when it agreed to be the prime obligor to the private partner's lenders by making base lease payments directly to

the lender, and these payments must continue even if the facility becomes unusable to the Province during the lease term.

12.36 Because insufficient risk was transferred to the private sector partner, the government was not successful in preventing the project from adding to the debt of the Province. This could only be accomplished by having the facility owned by the private sector, leasing it back, and accounting for the lease as an operating lease (as defined by the Canadian Institute of Chartered Accountants in Section 3065 of the *CICA Handbook).* When the decision was made to proceed with the project in conjunction with a private partner, all subsequent considerations of the financial arrangements were made from that perspective. That is, financing arrangements were evaluated in terms of meeting the requirements for classification as an operating lease. The evaluation process was driven by accounting presentation rather than a thorough analysis of the costs and benefits of the project. However, the result was insufficient transfer of risk, and government appropriately classified the transaction as a capital lease.

12.37 The 1997 Finance discussion paper states "*The key (P3) objective is to enable Nova Scotia taxpayers to get better value for their tax dollars by shifting responsibility .... to the private sector.*" We do not believe significant benefit was realized in arranging a P3 relationship for the collocated forensic and correctional facility project. We have identified various costs, risks and uncertainties which resulted because of the way the project was structured.

- The consortium pays a $25,000 annual fee to a local non-profit organization to provide tax-exempt status for the jail lease. This would not be a cost of the project if it had been undertaken by government. The net present value of the payments for the first lease term approximates $310,000.

- We understand that the effect of the harmonized sales tax (HST) on the cost of the project is unknown to the government, but if the Province had conducted the project it is clear that there would have been no HST costs. Thus, the cost of the project may have been greater because HST may have been payable by the private partner.

- Time and effort were channeled into negotiating an arrangement that would allow the government to record its financial commitments as payments on an operating lease. The objective was to not have the debt of the Province increase on account of this project. The transaction was subsequently classified as a capital lease, causing an amount equal to the principal portion of all lease payments to be added to the Province's debt. If the project had been conducted in a traditional manner, the cost of legal, accounting and other consulting services would likely have been less.

- A Memorandum to the Priorities and Planning Committee noted that financial markets price money (i.e., loans) guaranteed on a public project in the same way as a government loan. However, this does not appear to have been the case when the final agreements for the project were signed in December 1999. The private consortium arranged project financing and we understand that the interest rates exceeded those that could have been achieved if the Province had arranged similar financing. We calculated the net present value of the extra interest may have been in the range of $2.0 million to $3.0 million for the first 25-year lease term. However, we also understand that the Province's borrowing rate increased between December 1999 and September 2001, the time when the interest rates for the project were set. We were informed that at the time of the interest rate adjustments, the rates achieved for the project by the consortium were essentially the same as the Province could have arranged.

- At the end of the 25-year facility lease term, the Province has the option to renew the lease for five more years, purchase the facility for approximately $18 million, or surrender the facility to the lessor. The land is owned by the Province, but is leased to a private company for 50 years. If the Province does not buy the facility at the end of the 25 or 30-year period, it will lose the use of the land for an additional 20 or 25 years, but will receive monthly land rental payments of $5,000. If the project had been conducted in a traditional manner, the Province would not have been exposed to a potential loss of use of its property.

12.38 However, we are unable to conclude whether the project cost more under this structure because a public sector comparator was not undertaken. We are aware of an instance where a comparator was done in another jurisdiction.

Project Management

12.39 *Procurement* - In 1995 the Department of Justice was given approval to begin a process to identify a private sector partner to develop a new configuration for adult offender institutions. In 1996 a Call for Proposals was issued and a partner was selected, with the final agreement signed in October. The resulting Custody Configuration Plan was completed in May 1997. It recommended four corrections facilities be built in various areas of the Province to replace all existing facilities. The government decided that the full extent of the plan could not be undertaken and began negotiations with the partner to design, build and own a central correctional and forensic facility; in effect implementing just a portion of the plan. According to the Custody Configuration Plan, the cost of the central facility was estimated to be $35.7 million. Negotiations with the partner were unsuccessful. The partner estimated it would cost approximately $50 million to build just the central facility. The business relationship was discontinued in December 1997 and the partner was paid $345,000 for the work done in preparing the Custody Configuration Plan.

12.40 Due to the large increase in the estimated cost to construct the facility, a public Expression of Interest was issued in February 1998 to identify potential respondents to a Request for Proposals (RFP) to design, build and own a central correctional and forensic facility. The RFP was released in August 1998 to four pre-qualified consortiums. The group which had prepared the Custody Configuration Plan did not express interest in submitting a proposal. In January 1999, a consortium of private companies was selected and agreements for the project were signed in April. As a result of the RFP process, the cost of the facility was now estimated to be $57.7 million. A subsequent change in the facility's location (see paragraph 12.46) was reflected in amended agreements signed in December 1999 which valued the facility at $60.0 million. Construction of the facility began in early 2000. Substantial completion was reported by the contractors in June 2001 but the facility was not fully occupied until fall 2001.

12.41 We determined that the processes used to select consultants, private sector partners and other goods and services complied with established government policies and procedures. Project agreements included anticipated requirements, including costs and dates for completion. Except for certain aspects of the development and lease agreements discussed later in this report (paragraphs 12.64 and 12.65), the services and deliverables were received as specified.

12.42 *Site selection* - Our review of management's site selection process determined that the method used to evaluate and rank potential sites for the location of the facility was reasonable. However, due to a lack of documentation or other information, we cannot conclude whether Executive Council's decisions made based on the information from this process gave due regard to value for money.

12.43 Management developed criteria to evaluate potential sites for the facility. The criteria addressed:

- acquisition and development cost;
- amount of land available;
- proximity to the law courts, Nova Scotia Hospital and Dalhousie University;
- buffer zones and distances from communities;
- availability of fire, ambulance and other emergency services;
- access to water and sewer services;
- suitability of the site for construction; and
- operation and life-cycle costs.

12.44 Management determined that a minimum of 45 acres were needed to build such a facility, including area for the buildings, driveway, parking, and exercise fields. However, 100 acres would be optimal because it would provide space for a security/buffer zone and possible future expansion.

12.45 The arrangement made with the private partner was that the Province would purchase and own the land upon which the facility would be built. Fourteen potential sites were identified and evaluated by project staff. The sites were under either full or partial Provincial, Federal or municipal ownership or control. A 100-acre site located at Rocky Lake (Exhibit 12.3) received the highest ranking. A recommendation to purchase 60 acres (which was adjacent to 40 acres of land already owned by the Province) for $450,000 was approved by government's Priorities and Planning Committee on April 28, 1998. However, the site was rejected by Executive Council on June 25, 1998. We did not see any documentation of reasons for rejecting the Rocky Lake site, and were informed by management that Executive Council did not provide any reasons. The fourth-ranked site located at Jack Lake in Bedford was subsequently recommended to and approved by Executive Council on July 16, 1998. The 960-acre site was acquired from a Federal government agency at a total cost of $1,541,501, and partly paid by the transfer of a 900-acre parcel of land owned by the Province at Kidston Lake. The assessed value of the Jack Lake land was between $1.3 million and $2.4 million.

12.46 Site access and clearing began in early 1999. Following the July 1999 Provincial election, project staff were directed by Executive Council to seek an alternate location for the facility because of concerns about the proximity of the facility to residential areas. The Rocky Lake site was still available, but a new site (i.e., one that had not been available during the original site evaluation process) in Burnside Industrial Park was identified following consultation with Halifax Regional Municipality. After negotiating with Halifax Regional Municipality, the Province exchanged 910 acres of land from the Jack Lake site for approximately 66 acres of serviced land in the Burnside Industrial Park. The assessed value of the Burnside property was approximately $1.2 million.

12.47 The Province incurred costs of $821,000 relating to land clearance and stabilization at the Bedford site. In addition, the cost to build the facility increased by approximately $2.3 million due to redesign and other costs related to the relocation. Further, the Bedford facility may have been completed at least four months earlier (March 2001), possibly resulting in cost savings.

12.48 The Province did not achieve its optimal 100-acre size for the site in acquiring the Burnside property. The Rocky Lake property was still available for development in 1999 and the Province could have owned 100 acres had the Rocky Lake site been reconsidered. We saw no documentation of why the Rocky Lake site was not reconsidered after the Bedford site was rejected.

12.49 *Management and control* - Review of committee minutes and other documentation, and discussion with project staff, led us to conclude that appropriate processes were established to ensure good management and control of the project. Committee structures were developed, responsibilities were assigned, objectives were defined, milestones and targets were established, and construction budgets were monitored to maintain control over the project.

12.50 Terms of reference were developed for the committees and various project positions. Minutes of committee meetings were kept from late 1999 until the completion of the project. Minutes were circulated among the various committees, as necessary, to keep all parties informed about activities and progress. Sophisticated project mapping techniques were used to track and coordinate project activities.

12.51 The establishment of the Project Office and the formalization of the Steering Committee (see paragraph 12.17) were considered essential to the project's management and control. We understand they enabled centralization of the project management process, accelerated decision making and facilitated the resolution of concerns and conflicts. The Project Office provided objectivity, leadership and project management expertise. The Office was a key factor in tracking project details and maintaining project-wide communications. The Steering Committee was informed of the project's progress on a regular basis through the Project Office, and was also provided timely, appropriate information when critical decisions were required.

12.52 Although participating government officials expressed general satisfaction with the overall management of the project, some areas for improvement were identified. Establishment of the Project Office at an earlier stage in the project to document decisions and track details would have been beneficial. Few, if any, minutes were kept of discussions and decisions made during the early stages of the design finalization process. A number of decisions on building design made after the initial agreements were signed, between April 1999 and July 1999, were not well documented. This resulted, in some cases, in uncertainty as to which changes had been agreed to, as well as other agreed upon changes being omitted from architectural drawings. For example, a small exercise yard was requested and agreed to, but the addition of the yard was not carried forward to the design. This omission was not realized until it was too late to correct the error without incurring additional costs.

12.53 Another weakness identified was the lack of a formal internal communication strategy and dispute resolution process at the outset of the project. Reaching consensus in areas that jointly affected corrections and forensics, such as the mentally-ill offender unit, was challenging and required reconciliation of the different objectives and philosophies of health and correctional programs. Consensus was achieved through considerable discussion and facilitation, but a successful process required time to evolve.

12.54 The approach the Province used to acquire the facilities placed total responsibility for construction with the private sector consortium. Project staff noted some difficulty in obtaining construction schedules on a regular and timely basis. Without such schedules, it was difficult for committee members to anticipate and plan for design and equipment decisions required as construction progressed. Lack of timely schedules did not prevent staff from fulfilling responsibilities or cause delays to the project, but it did hinder orderly decision making and put increased pressure on staff to meet deadlines.

12.55 *Expertise* - We noted that appropriate expertise was available to and accessed by government during each phase of the project, including development of the plan, development of the Request for Proposals, review of proposals received, negotiation of contracts, and assessment of the performance of contractors. As well, frequent inspections were carried out by building, plumbing and electrical inspectors and the Fire Marshal's Office during the construction period to ensure that building codes and standards were being met. The Construction Committee, as part of its overview responsibilities, was kept informed of the results of these inspections and was assured quality control standards were being met.

12.56 Project staff noted that, in hindsight, additional architectural expertise might have been beneficial. Obtaining expertise specific to the construction of a correctional facility may have improved the Request for Proposals document by providing additional clarity and detail, and would have benefitted the evaluation of the proposals received. We were informed that this type of expertise is not readily available and may have required hiring experts from outside the Province, and possibly outside the country. However, funds were not available for this.

12.57 *Change order process* - Prior to the establishment of the Project Office, there was no formal process for issuing design change orders. Change requests were made through meetings and individual contact with the project architects. A change order process was developed in early 2000 that required appropriate assessment of the cost and necessity of a change, and ensured proper approvals for changes. Under the new process, change requests were first reviewed by the Co-chairs of the Corrections and Forensics Transition Teams, and then brought before the Construction Committee for discussion and consultation with construction specialists. Requests were then brought to the Leadership Committee for approval in principle. If approval was given, the requests went back to the Construction Committee which asked the contractor to prepare formal cost estimates. When the cost estimates were received, they were brought back to the Leadership Committee for acceptance and then forwarded to the Steering Committee for final approval. Provision was made for acceleration of the decision-making process when circumstances warranted.

12.58 From the start of construction in early 2000, through to the fall of 2001, there were 58 change orders - 49 at a cost of $770,050 and 9 credits totaling $43,690 - for a net additional cost to the Province of $726,360 (1.2% of the stated value of the facility). These costs were borne directly by the Province. There were additional change orders being considered at the time of our audit. The cost of these were not finalized and we were unable to estimate if the amounts could be significant.

12.59 Discussions with project staff and review of committee minutes and files indicated that the change order process was generally followed as described. The process was timely, considering the number of steps required to assess and approve a design change. We were informed there were only a few instances where a decision to proceed with a change was not timely and an opportunity was lost to make a change for cost reduction/credit or to make an improvement for no additional cost. One such instance was a request made to change the type of wiring installation. The cost estimate was not received before the work was carried out in the forensic facility based on the original specifications. The cost reduction/credit for the change, therefore, was only realized for the correctional facility.

12.60 *Progress reporting* - Project reporting systems provided timely, accurate information on project activities, progress, problems and change orders. However, there was no system to track, accumulate and report government project costs between the initiation of the project in 1995 and completion in 2001. Project costs were not incurred and accumulated by one entity or recorded in one cost centre. Costs were recorded separately by the Departments of Justice and Health, and the Nova Scotia Hospital for their proportionate shares. We tabulated $5.5 million of costs attributable to the project for the years 1995 to 2001 (Exhibit 12.5). This does not include the cost of Provincial employees involved with the project, other than members of the Project Office, because they are not separately identified in any accounting for the project.

12.61 *Project completion* - The development agreement defined substantial completion as when the facility was 97.5% complete, except for any listed deficiencies, and ready to be occupied and operated. A Certificate of Substantial Completion signed by the developer and the developer's architect established June 25, 2001 as the date of substantial completion. However, the facility was not ready for occupation and operation at that time because there were significant deficiencies to be corrected. The main area of concern was the computerized security system which controls many operations of the facility. We were informed the system would be completely ready by mid-September, almost three months after substantial completion. However, as of mid-October there were still problems that had to be resolved. As the security system was not ready, staff training and offender occupancy dates were delayed.

12.62 As defined in the facility lease agreement, certain payments were due to start in July 2001. Under the terms of the lease, monthly payments of an operating component of approximately $71,500 and capital repair sinking fund component of $8,333 commenced in July. The first quarterly payment of the variable base rent component, approximately $329,000, was due in September 2001. Thus, the Province expended approximately $350,000 to the end of September 2001 before the facility was fully occupied.

12.63 The delay also required government to find alternative accommodations for some adult offenders because three other Provincial corrections centres were closed in anticipation of an earlier relocation to the new facility. The Province sent 20 offenders to Prince Edward Island at a cost of $125 per day per offender, and also paid to have some inmates kept temporarily in Federal institutions at a cost of approximately $45 per day per offender. None of the agreements provide a specific remedy if occupancy after substantial completion is delayed. However, we were informed that the government is going to accumulate these and other costs caused by the delay for possible settlement with the developer.

12.64 We also noted that the development agreement required the developer, approximately 90 days before the estimated date of substantial completion (June 25, 2001), to provide a facility commissioning schedule detailing the various tests to be undertaken and the procedures and standards to be used. We were informed that such a schedule was not provided, though the Province was informed when testing procedures were to be undertaken.

12.65 We also noted that the facility lease agreement requires the lessor, not less than 60 days prior to the rent commencement date (July 1, 2001), to provide a maintenance plan and manual, capital repair and replacement plan, technology plan, and a communication plan. We were informed that these plans were still not provided to the Province two months after the rent commencement date.

12.66 *Post-completion review* - There are no specific plans for a post-completion review of the project by government. Evaluation of the project's completion within budget and specified dates has been ongoing as part of the project management process. However, members of the Leadership and Steering committees have acknowledged the need for a formal review of the project, as well as ongoing monitoring of facility operations, to ensure they function as anticipated and to decide what improvements, if any, can be made. We believe a post-completion review of the project should be conducted to assess whether appropriate processes were used, the facility meets the needs originally identified and planned benefits were actually realized. Such a study, along with any resulting recommendations, should benefit future government capital projects.

12.67 *Cost of operations* - When government approved the project, it was with the proviso that the corrections portion of the new facility should be built and operated within current budget limits. The four correctional centres which will be closed as a result of the new facility cost $12.2 million to operate in 2000-01, and the 2001-02 budget for the partial year operation of the new facility and the closure of the other four centres totals $12.9 million. The budget amounts do not include any costs

associated with the subsequent delay in opening the new facility. Consequently, the cost of operating the Provincial corrections program with the new central facility is marginally higher than that spent in the prior year.

12.68 During the planning for the correctional facility in 1998, a furniture and equipment list was prepared which identified items required for the new facility. The Department of Justice requested that surplus government equipment be held until it could be determined whether it could be used in the new facility. As a result, the cost to the Province for furnishing and equipping the corrections and common services units was limited to approximately $104,000.

12.69 The net operating cost of the Nova Scotia Hospital's forensic program was $6.4 million in 2000-01, and was budgeted for $8.2 million in 2001-02. The budget does not include approximately $2.2 million of annual amortization and other costs for the new forensic facility. The leasing costs are to be absorbed by the Department of Health. We understand the increase in forensic cost is primarily due to expanded operations and programs, including 20 new in-patient beds and a new 24-bed mentally-ill offender unit. The forensic staff complement is planned to increase by about 50, at an additional cost of about $1.8 million for salary and benefits. The forensic budget also does not include any costs associated with the subsequent delay in opening the new facility. Consequently, the cost of operating the forensic program will be substantially greater than in previous years, but this is primarily due to an expansion of its treatment programs.

12.70 We understand that subsequent to the approval of the 2001-02 budget, the Department of Finance agreed to absorb all interest costs attributable to the lease payments for the new facility. Consequently, for the correctional operations, costs will be recorded in both the Department of Justice and the Department of Finance. For the forensic operations, various costs will be recorded in each of the Departments of Finance and Health and the Capital District Health Authority. We recommend that, if decisions are to be made based on the cost of the facilities (e.g., determining per diem rates to charge to other jurisdictions), costs recorded in other departments be determined and factored into such decisions.

CONCLUDING REMARKS

12.71 Internal accountability for the corrections and forensic facility project was generally good. Appropriate authorizations occurred at each significant stage of the project. Roles and responsibilities were defined and understood. Internal progress reporting was good, except for the accumulation and reporting of project costs borne by the Province. However, there was little formal reporting on the project by government to the House of Assembly or public.

12.72 Initial planning for the project was satisfactory. There was a thorough examination of alternatives, appropriate involvement from each government department and agency affected by the project, and consultation with other significant stakeholders. Project plans were detailed and thorough, and updated on a timely basis for changes. However, when government proceeded to implement only part of the plan to replace all correctional centres in Nova Scotia, deficiencies in the original plan became apparent and there were subsequent inadequacies in the government's analysis of the costs and benefits of proceeding with a public-private partnership arrangement. Also, the use of a P3 structure does not appear to have added significant benefits to the project. We observed areas where costs, risk and uncertainty may have been higher because a P3 approach was used.

12.73 Management and control of the project were sufficient. Government policies on procurement were followed, except for some guidelines pertaining to risk transfer and cost-benefit analysis for P3 projects. The process to evaluate potential sites was good, but there was insufficient

documentation provided to determine whether the decisions made with respect to the site of the facility gave due regard to value-for-money. Good processes were implemented to monitor and control the project, especially once the Project Office was in place. Government obtained appropriate expertise to plan and monitor the project. However, government was a few months late occupying the facility, and it is unclear whether additional costs incurred due to the delay can be recovered.

Exhibit 12.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of the correctional and forensic facility project.

- There should be clear responsibility and accountability for the various phases of the project. There should be adequate systems and controls to ensure information reported is accurate and complete. Appropriate, timely information on the project should be reported internally within departments and externally to the government and to the Legislature.

- Project goals and processes should be consistent with department and government goals and policies, and provide clear expectations for the project. Project planning should consider needs, available resources, risk, physical capacities and capabilities, and alternative means of addressing needs. Planning should include input from departments and other significant stakeholders, and finalized plans should be challenged by senior management.

- Project processes should comply with established Provincial policies and procedures. Processes should be established to ensure the management and control of the project. Due regard for economy and efficiency should be demonstrated in the conduct of the project including calling tenders, awarding work, monitoring progress, and controlling design changes and total project cost. Project processes should include a post-completion review.

Exhibit 12.2

PROVINCIAL ADULT OFFENDER INSTITUTIONS (1997)

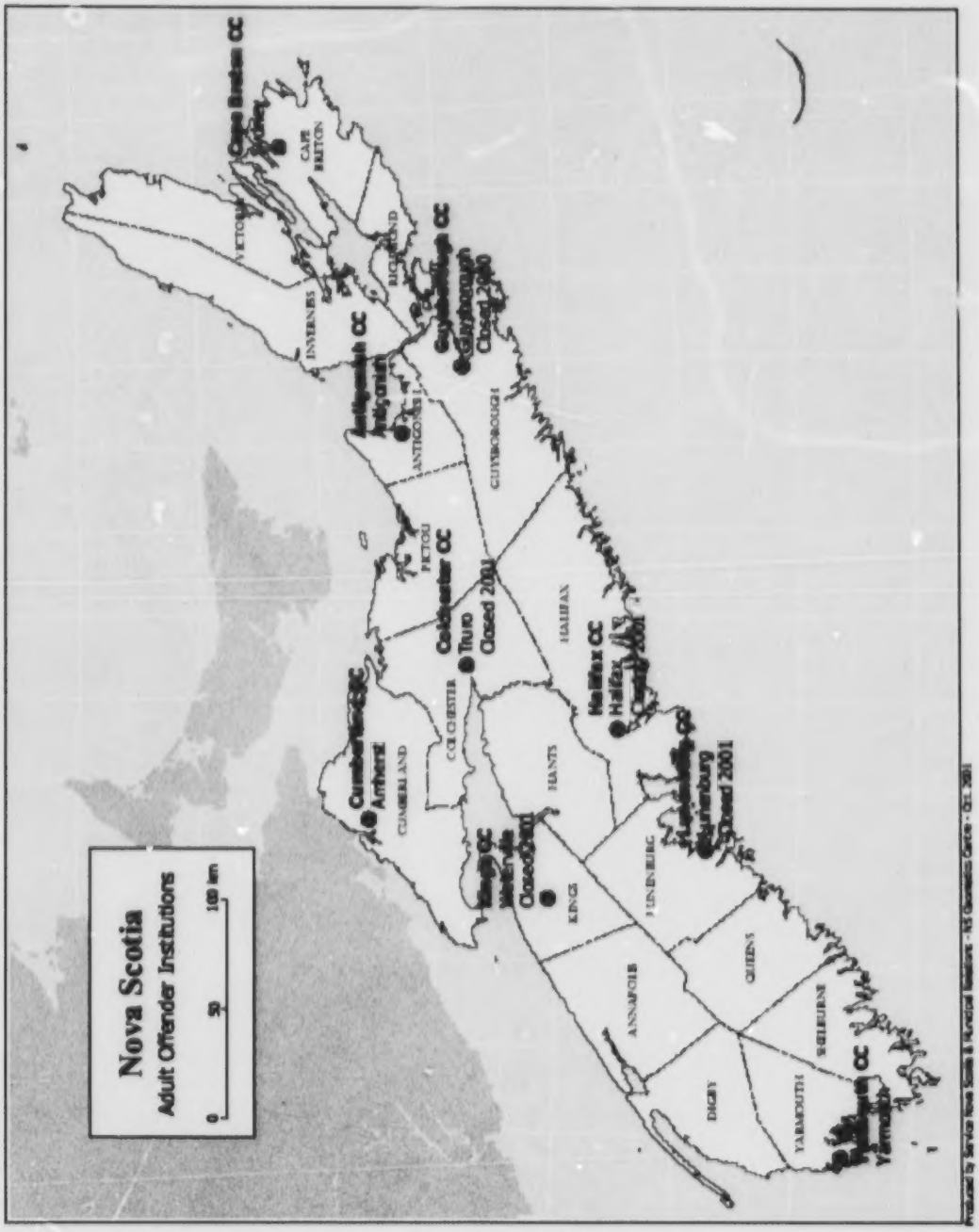
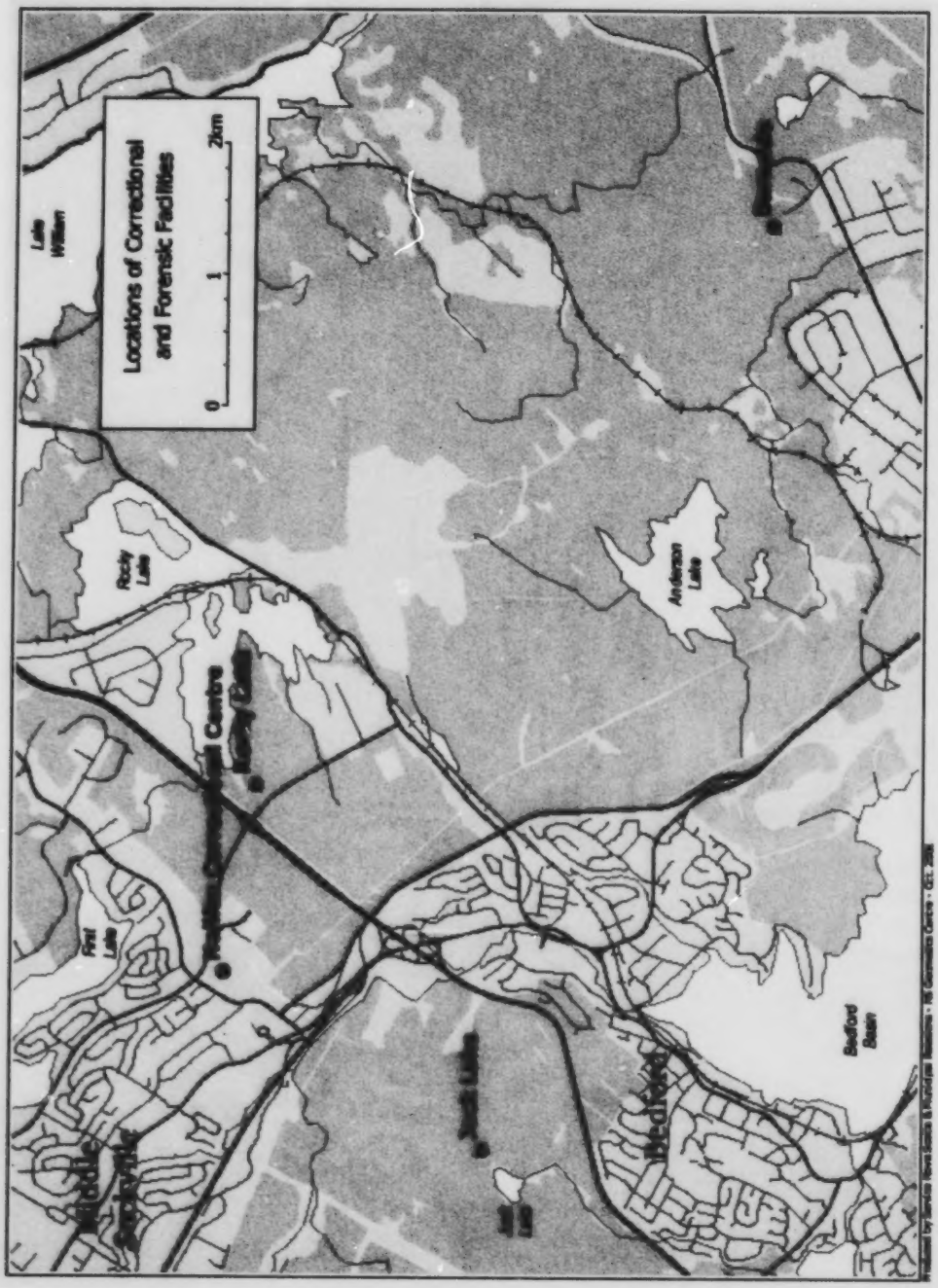


Exhibit 12.3

PROPOSED LOCATIONS OF CORRECTIONAL AND FORENSIC FACILITY



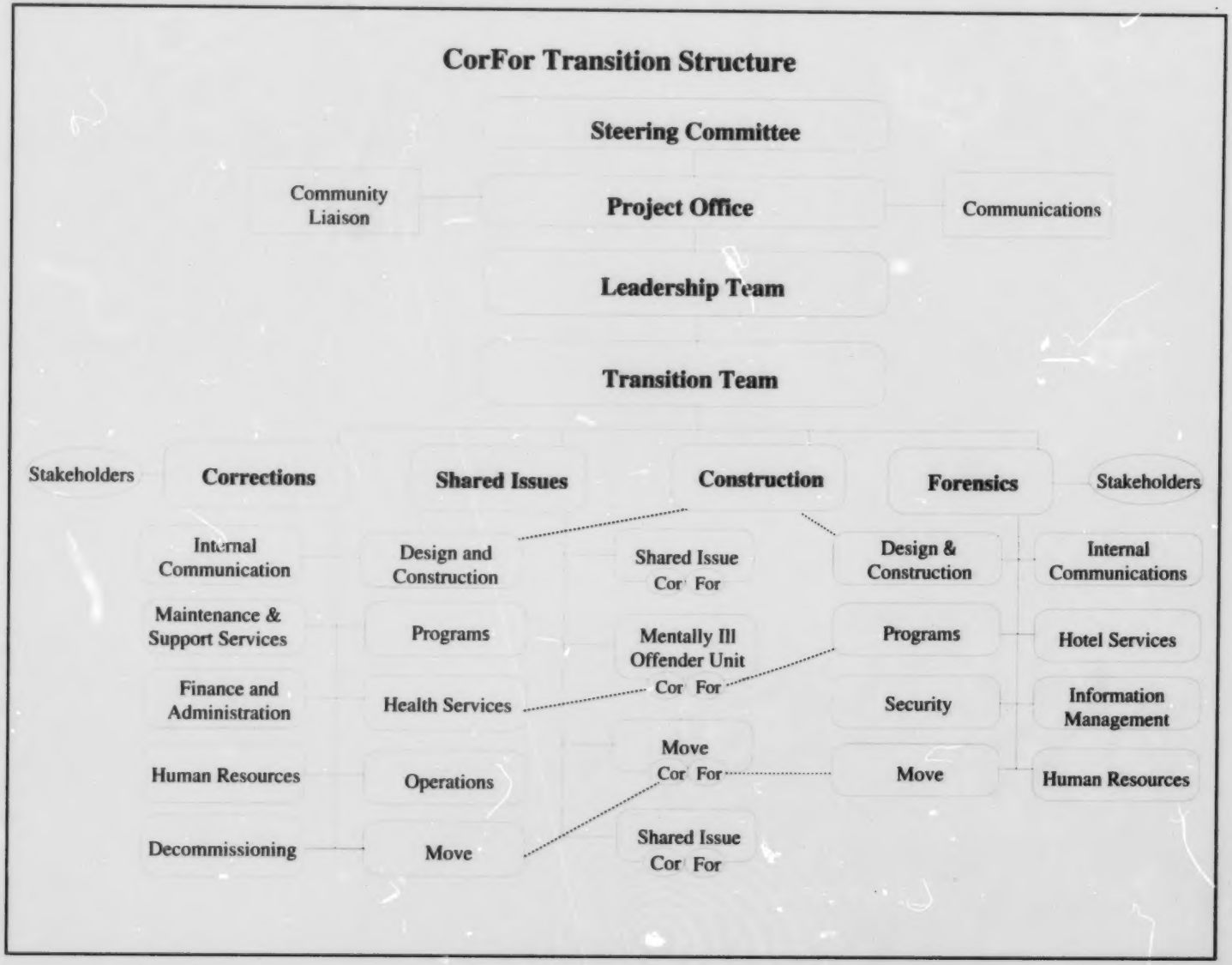

CorFor Transition Structure
Steering Committee
Community Liaison
Project Office
Communications
Leadership Team
Transition Team
Stakeholders
Corrections
Shared Issues
Construction
Forensics
Stakeholders
Internal Communication
Design and Construction
Shared Issue Cor For
Design & Construction
Internal Communications
Maintenance & Support Services
Programs
Mentally Ill Offender Unit Cor For
Programs
Hotel Services
Finance and Administration
Health Services
Security
Information Management
Move Cor For
Human Resources
Operations
Move
Human Resources
Decommissioning
Move
Shared Issue Cor For

Exhibit 12.4

COSTS INCURRED BY PROVINCE OF NOVA SCOTIA (EXCLUDING LEASE COSTS)
CENTRAL NOVA SCOTIA CORRECTIONAL FACILITY AND
EAST COAST FORENSIC PSYCHIATRIC HOSPITAL

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 (Partial Year)	Total
Consultants	$ 180,000	$ 345,000						$ 525,000
Land Purchase - Jack Lake				$1,541,501				1,541,501
Site Costs - Jack Lake					$ 820,733			820,733
Project Office					143,022	$ 301,376	$ 156,399	600,797
Nova Scotia Hospital					111,369	221,579		332,948
Construction Change Orders						307,771	418,589	726,360
Equipment DOH/NSH					700,000		150,000	850,000
Equipment - DOJ							104.000	104,000
Other							40,000	40,000
Department of Finance	Information not available							
Late Opening Costs	Information not available							
Government Salary and Other Costs	Information not available							
	$ 180,000	$ 345,000	$ -	$ 1,541,501	$1,775,124	$ 830,726	$ 868,988	$5,541,339

Exhibit 12.5

Exhibit 12.6

ESTIMATES OF CHANGE IN FACILITY COST
($ Millions)

September 1998 estimate of facility cost	$ 35.7
Class D cost estimates only accurate to +/-15%	5.4
Estimated design error of 35,000 square feet	7.0
Underestimate of facility building cost	7.5
Other factors (see below)	2.1
April 1999 Development Agreement project cost	$ 57.7
Cost of relocating facility from Bedford to Burnside	2.3
December 1999 Development Agreement project cost	$ 60.0

The above estimates are based on information derived during the course of the audit. We understand other factors which may have impacted on the project cost include:

- the collocated central facility plan was extracted from a larger Province-wide plan and some economies of scale may have been foregone;
- the original project proponent prepared the plans anticipating the project would be built, financed, owned and operated by the successful bidder with certainty that the project costs, recoveries and profits would be realized by operating the facility;
- the original project plans assumed a level site and services "to the curb"; and
- inflation may have increased construction costs in the time between the original May 1997 plan and 18 months later in November 1998 when three proposals were received.

DEPARTMENT OF JUSTICE'S RESPONSE

General Comments:

This project involved staff from the departments of Justice, Health, Transportation & Public Works, Finance, the former Department of Housing and Municipal Affairs, the Nova Scotia Hospital and the Capital District Health Authority. This initiative also involved first a partnership with the a private sector consortium in the preparation of the Custody Configuration Plan, and then a public-private partnership with the developer who built and leased back the facilities to government. In addition, the CorFor Project required staff to develop the program plan and operational approach needed to operate the facilities separately, and jointly. The sheer number of partners, as well as the complexity of the issues involved, made this initiative worthy of review.

Paragraphs 18 and 25

Regular press releases were made by government to mark milestones in this project. The initiative was the subject on numerous media reports from 1995 to 2001. The Ministers of Justice and Health throughout this period have responded to questions in the House of Assembly relating to various aspects of this project, including changes in costs. In addition to the information available through the media, regular updates were provided directly to the public through public meetings, first in Bedford and Sackville, and then in Dartmouth and through the distribution of the Project Update which went directly to homes in the surrounding areas and through three websites.

Paragraph 19 and 60

With relation to the lack of separate accounting of ongoing costs associated with the administration of this project, it should be noted that with the exception of the Project Office costs from late 1999 to 2001, there was no dedicated office in place to manage this project. Rather, staff assumed responsibility for this initiative in addition to their other duties. They were not required to provide separate time sheets that account for the time devoted to project tasks. Executive Council did not seek information on staff time required for the project nor were questions on this topic raised in the House of Assembly.

With respect to reporting on other costs, e.g., moving costs, et cetera, these items were included in annual operating budgets and therefore were subject to existing government budget review and approval processes.

Processes do not exist to combine the accounting for costs incurred by the departments of Justice, Health, Transportation & Public Works, Finance and Housing and Municipal Affairs, as well as the Nova Scotia Hospital and the Capital District Health Authority. Each entity is responsible separately for its budget.

Paragraph 27

The increases in costs from $35.7 million to $57.7 million was subject to the government's public bid process through the Public Tenders Office. The bids received ranged from $56 to $58.5 million. Since the public bids were based on the information in the Custody

Configuration Plan, the "market test" provided by the public tender process indicates the facilities, when removed from the large configuration of four to six facilities, were undervalued at $35.7 million.

Paragraph 33

Public sector comparators were not provided as the instructions to staff at the time were to proceed using a public-private partnership.

Paragraph 53

While some aspects of the project were "challenging and required reconciliation of different objectives and philosophies" consensus decision-making was the desired approach rather than the use of a dispute resolution process.

Final Comments

As the result of this initiative the Department of Justice and the Capital District Health Authority has negotiated agreements for shared services, e.g., health services and security services. The Office of the Auditor General has been asked to review these shared service agreements to determine the extent of cost savings and other benefits at such future time as may be appropriate.

CROWN AGENCIES AND CORPORATIONS

13.

HALIFAX-DARTMOUTH BRIDGE COMMISSION

BACKGROUND

13.1 The Halifax-Dartmouth Bridge Commission (HDBC) was established in 1950 by the Halifax-Dartmouth Bridge Commission Act. The Commission is responsible for the construction, maintenance and operation of the Angus L. Macdonald Bridge and the A. Murray MacKay Bridge, and the necessary approaches.

13.2 The Commission is governed by a Board of Commissioners consisting of nine members. The chairman, the secretary and three members are appointed by the Executive Council. The remaining members are appointed from throughout the Halifax Regional Municipality (HRM). The Commission employs 23 permanent, full-time administration and maintenance staff, four part-time customer service staff, 50 members of the Corps of Commissionaires on a contract basis, and 50 seasonal painting and gardening staff. The head office of the Commission is located in Dartmouth by the Angus L. Macdonald Bridge toll plaza.

13.3 The Commission's net income from operations was $4.9 million for the year ended December 31, 2000. Long-term debt at that date totaled $123.0 million. This was offset by sinking funds and other restricted assets amounting to $9.6 million.

13.4 This was our second review of certain aspects of the Commission's operations. We had assessed the adequacy of debt management and other practices in 1988 and reported the results of that review in the *1989 Report of the Auditor General*. This year's review was performed in January 2001 under the mandates provided by Sections 8 and 17 of the Auditor General Act.

RESULTS IN BRIEF

13.5 The following are the principal observations from our review.

- We have suggested that documentation standards be improved in certain financial management areas such as budgeting and monitoring, and that Board and committee minutes related to discussions in these areas be expanded.

- Although the Commission has a documented procurement policy, we were unable to determine compliance in all areas tested. We have recommended standardized forms be used and a record retention policy be established for the procurement process. We also recommended that the Commission document the reasons for obtaining certain services through sole-source arrangements, as required under the Provincial Procurement Guidelines.

- The Commission is fulfilling reporting requirements as specified in its legislation and the Trust Indenture related to its long-term debt. We noted that efforts are being made by the Commission to clarify its reporting and accountability relationship with the Department of Finance in light of government-wide expenditure controls implemented during 2000-01.

- Financial information, including information on investments held in sinking funds and other reserves, is adequate for monitoring and decision-making purposes. We noted that the financial position of the Commission has improved in the past 10 years. As can be seen in Exhibit 13.1, the portion of total expenditures related to debt servicing costs has declined from 67.3% in 1990 to 44.0% in 2000, an improvement of 65.3%.

- We tested compliance with aspects of the Commission's capital asset policy and noted no significant deviations. We recommended capital projects included in the annual budget be prioritized.

- The Commission has acknowledged the need for a long-range strategic plan. Variables to be included in a comprehensive plan need to be identified and analyzed as necessary.

- The Commission has policies and procedures to ensure the safety of its employees and contracted staff, many of which likely impact and help secure the safety of the traveling public. We recommended a safety manual be prepared to document those policies and procedures directed toward public safety.

AUDIT SCOPE

13.6 The objectives of this assignment were to determine:

- the adequacy of the Commission's accountability and financial management framework to the Minister of Finance, the House of Assembly, and other stakeholders;

- whether there are adequate processes to monitor the reserve fund investments, including regular reporting by the trustee to the Commission;

- the appropriateness of the policies and procedures with respect to the Commission's capital assets, including ongoing maintenance, and analysis and approval of capital projects;

- the adequacy of the long-term planning process at the Commission;

- the appropriateness of the risk management policies at the Commission, including the analysis used to determine insurance coverage; and

- whether procurement policies, procedures and controls are adequate to provide for due regard for economy and efficiency.

13.7 General criteria were used to facilitate our review of operations at the Commission. These criteria were discussed with management at HDBC, and were provided to the Board of Commissioners.

13.8 Our approach included interviews with HDBC management and staff, and with the Chairman of the Board of Commissioners. We also reviewed documentation and performed detailed transaction tests as needed to achieve the objectives of this assignment.

PRINCIPAL FINDINGS

Documentation

13.9 During our review of operations at the Commission, we noted instances where documentation standards or practices could be improved. These are as follows.

- We reviewed Board and committee minutes to obtain information about the Commission's activities during the year under review, and also to determine respective decision-making powers. Although we were informed certain discussions took place at the committee level, we were unable to find sufficient details of some of these discussions in the minutes (see paragraphs 13.37 and additional findings noted below in paragraph 13.9). We recommended that minutes be expanded to document discussions in key operational areas such as budgeting and procurement.

- The budget process is based on current financial information, with management and staff in each of the Commission's core functional areas preparing budget submissions. We suggested that standard forms be used in the budget process and that analysis used to support significant budget line items be documented. This would help ensure the continuity of the budget process.

  We noted during our review of the 2001 budget process that minutes of the respective committees did not reflect budget deliberations to any great extent. We were pleased to note that discussions with respect to the 2002 budget were well documented in the minutes. We recommended that the results of the mid-year budget review be reflected in the minutes as well.

  We were informed that there is a discussion of alternatives in selecting certain capital and maintenance projects for the budget. This informal process would relate more to items determined by Maintenance Department staff as opposed to items derived from the inspection report prepared annually by the Commission's consulting engineers (see further discussion of this at 13.36). We recommended that this process be formalized including documentation of the alternatives analyzed.

- Quarterly financial statements are provided to senior management and the Board and include year-to-year quarterly comparisons. We were informed that budget variances are discussed at the management and committee levels, and with the Board, but we did not see evidence of discussions of variances, and we suggested these be documented. A review of the quarterly financial information package now being provided to the Board, senior management, and the Department of Finance, indicates that variance explanations are now noted.

- We performed tests to determine compliance with the Commission's Purchasing and Tendering Authority. The results of these tests and our recommendations with respect to the Commission's procurement practices and related documentation are noted in paragraphs 13.42 through 13.44.

  We discussed the findings from our tests with senior management. We suggested that the Commission develop standard forms to document the results of obtaining quotes or soliciting tenders, and that a filing and/or retention policy be established with respect to these forms.

- The Provincial Procurement Policies indicate that there must be a compelling reason for sole-source purchases to be made and that there should be documentation to support the decision to sole source. This documentation could then be subject to audit by the Department of Finance as well as by the Office of the Auditor General.

  We reviewed expenditures totaling about $1.4 million made during 2000 which were as a result of sole-source arrangements. Rationale for these arrangements included the level of expertise provided by the service provider, and knowledge of HDBC operations and infrastructure due to long-standing involvement with the Commission. Although we are unable to comment on the appropriateness of the rationale in each circumstance, we noted that there was no documentation to support this rationale as required under the Provincial Procurement Guidelines. We recommended that the Commission adhere to these Guidelines for sole-source purchases and document and retain support with respect to these decisions. Management has noted that they will be in contact with staff at the Procurement Branch of the Department of Transportation and Public Works to clarify what documentation is required.

13.10 We recognize that there is a small team managing the Commission's operations, and that Board members are routinely involved in budget, maintenance and procurement activities. Our suggestions with respect to improved documentation in certain areas are intended to ensure the due diligence process undertaken by management and the Board is appropriately reflected in minutes and other documents.

Governance, Accountability and Performance Measurement

13.11 *Board and committee structure* - We noted the following with respect to the Board and its committees.

- There are Terms of Reference for the Board and its committees, but they are outdated and require revision. Senior management indicated this process will be completed during 2001. We suggested that the Terms of Reference detail levels of authority for the Board and its committees.

- A request to update and amend the Commission's Act, including a recommendation to stagger Board appointments, has been made by the Board Chair during the current year.

13.12 *Accountability* - During the year, the Commission received a directive from Priorities and Planning Secretariat (now Treasury and Policy Board) with respect to accountability measures for the 2000-01 budget. We reviewed draft correspondence between the Board chair and the Deputy and Minister of Finance regarding these measures. It is evident from the draft correspondence that the intent is to establish an ongoing reporting and accountability relationship between the Department and the Commission which implements the spirit and intent of these measures, and which will extend beyond the 2000-01 budget year. We acknowledge the efforts being made by the Commission to clarify these matters with the Minister and the Department.

13.13 The trust indenture for the Toll Revenue Bonds Series I requires quarterly reporting, both financial and non-financial (where required), to provincial securities commissions. We noted that the Commission uses a checklist to ensure that the reporting requirements noted in the trust indenture are met each quarter. Information provided to the securities commissions is approved by the Board prior to its distribution.

13.14 The Commission provides its annual report, including its audited financial statements, to the Minister of Finance. The annual report is tabled in the House of Assembly. A chart describing the accountability relationship to the House of Assembly can be found in Exhibit 13.2.

13.15 *Performance measurement* - The annual business plan prepared by the Commission details its goals for the upcoming year and indicates steps it will undertake to achieve those goals. This information is consistent with the format provided by Treasury and Policy Board for the preparation of business plans.

Long-term Planning

13.16 The Commission does not have a documented long-range strategic plan. Recent decisions with respect to capital projects and related financing did not result from a formal strategic planning initiative but rather responded to identified customer needs. The Executive Committee of the Board has acknowledged the need to develop a long-range strategic plan. Terms of reference and the time frame the plan should consider have yet to be established.

13.17 A long-range planning process by the Commission should consider variables such as demographics, infrastructure planning by the HRM, traffic and capacity studies, and should include financial information such as cash flow projections and anticipated capital and maintenance project costs.

13.18 We understand that, according to its Act, the Commission cannot undertake traffic studies unless requested to do so by the Province and the HRM. We are also aware that the Commission does not publicly disclose cash flow projections in accordance with requirements mandated by provincial securities commissions. However, this does not preclude internal forecasting, to be used as part of the planning process or otherwise. We recommended the Commission pursue these and other factors with relevant stakeholders in order to prepare a comprehensive plan.

13.19 We have been informed that the Commission will undertake a capacity study in 2002. Management and the Executive Committee have further indicated that they have undertaken or will undertake other planning initiatives in the near future.

Risk Management

13.20 *Occupational Health and Safety Committee* - The Board of Directors has approved an Occupational Health and Safety (OH&S) policy. Procedures to address this policy have been developed and are included in an OH&S manual. Certain sections of the manual have been identified as required reading for all HDBC employees and contracted staff.

13.21 *Commission employees* - Commission employees are required to participate in a two-day safety training session when their employment begins. There is no follow-up to this session in subsequent years although we understand certain staff attend outside training sessions to update and maintain knowledge in specific areas. We recommended that the schedule for these training sessions be formalized.

13.22 *Contracted staff* - The Corps of Commissionaires has provided contracted services to the HDBC since the Angus L. Macdonald Bridge opened. The Corps has developed its own safety policies and procedures over time, and we understand these are presently being reviewed to be collated into a comprehensive safety manual for Corps staff working at the Commission. Safety policies and procedures for seasonal workers such as painters and landscapers are outlined in the OH&S manual noted above.

13.23 *Bridge customers* - The continued safety of HDBC customers is noted as a goal in the Commission's 2001 Business Plan, and there are initiatives noted to achieve this goal. Management has also indicated that there are practices and equipment in place to ensure the safety of HDBC customers. Specific examples include:

- staff trained in highway signage;
- ice detection systems, including built-in alarms, on both bridges' decks; and
- back-up generators for electrical systems.

13.24 In addition, there is an annual inspection of each of the bridges by the Commission's consulting engineers.

13.25 We were informed that safety equipment would include instructions from the manufacturer regarding procedures to follow. We were also told that many of the policies and procedures outlined in the OH&S manual and those developed by the Corps of Commissionaires provide for the safety of HDBC customers. While we acknowledge the probable impact of these policies and procedures on the traveling public, we recommended policies and procedures directed toward public safety be formalized into a comprehensive safety manual.

13.26 *Incident reporting and follow up* - There is a standard incident report to be completed in the event of accident or other incident. We noted that the reports are not pre-numbered and we recommended that this control feature be established.

13.27 *Insurance* - We discussed the types and levels of insurance coverage at the Commission with senior management, although we did not assess the adequacy of this coverage. The analysis used to determine the insurance coverage is both formal and informal. Advice is also obtained from an insurance consultant. The level of property coverage is supported by an estimate of the replacement cost of each bridge which is provided by the Commission's consulting engineers.

Financial Management

13.28 *Policies and procedures* - The Commission has recently developed policies and procedures for capital assets and investments. These have been approved by the Board and are included in an administrative manual. Senior management noted that other policies and procedures related to financial management included in this manual will be reviewed, and updated if required, in due course.

13.29 *Financial reporting* - Quarterly financial statements are prepared and distributed to management, senior management and Board members. We were informed that the frequency and information content of these statements is considered adequate for decision-making purposes. Board members, management and senior management are able to request additional financial information as needed. We have been informed that, in keeping with the accountability provisions to the Department of Finance referred to in paragraph 13.12 above, the Commission's quarterly financial statements are now also provided to that Department.

13.30 *Cash flow analysis* - A cash flow statement reflecting the Commission's operations is prepared as part of the annual budget process. Management has informed us that they plan to prepare cash flow statements on a quarterly basis now that the Commission's finances are structured to provide surplus cash during the year. This cash flow information will support decisions made in the annual and long-term planning processes with respect to debt and operational requirements.

13.31 *Reserve funds* - Under the terms of the trust indenture which provided for the issue of the Toll Revenue Bonds Series I, the Commission must maintain four reserve funds. Management monitors the portfolio to ensure compliance with the terms of the Trust Indenture. An analysis of the portfolio is prepared on a quarterly basis and included with the quarterly reports submitted to the Board. We were informed that compliance with the debt covenants is tested during the Commission's annual financial statement audit.

13.32 *MACPASS* - This electronic toll collection system was introduced by the Commission in 1998. Its introduction coincided with the need to update all other toll collection equipment at the bridges. The MACPASS concept was approved by the Board and we have been informed that the Nova Scotia Utilities and Review Board (NSURB) approved implementation of the system.

13.33 We were informed that there was an informal cost-benefit analysis presented to the Board with respect to implementing MACPASS. Further, management indicated that the cost efficiencies of the system were presented to the NSURB. The system was introduced as a method of dealing with traffic congestion and not as a means to generate additional revenue. The Commission's 2000 Annual Report indicated that there are approximately 28,000 MACPASS users on the system.

Capital and Maintenance Projects

13.34 *Policies and procedures* - There is a documented and approved capital asset policy in use at the Commission. We tested compliance with this policy as follows:

- capital projects included in the 2000 budget were tested to ensure they met the definition of a capital item as defined in the policy; and

- items included in the 2001 maintenance budget were tested to ensure they were properly classified as maintenance projects.

13.35 With the exception of one minor deviation, we noted that all items tested were in compliance with the policy.

13.36 *Budget process* - Capital and maintenance items included in the annual budget originate from the annual inspection report prepared by the Commission's consulting engineers, and from a maintenance schedule kept by senior management in the maintenance department. There is also a consultative process between the Maintenance Department and the consulting engineers to determine the timing of items to be included in the budget. For example, an item recommended from the inspection report to be included in a future year's budget may be dealt with in the current year due to various factors such as timing with other planned projects.

13.37 We tested to determine if items noted on the maintenance schedule were included in the 2001 budget. We noted that all items considered to be capital expenditures were included in the budget, but several items classified as maintenance expenditures were omitted. There was also a discrepancy between the cost determined on the maintenance schedule and the amount included in the budget for eight items. There is no documentation to support the iterative process followed to arrive at the items and amounts included in the budget although we noted discussion of several items during Maintenance Committee meetings.

13.38 Capital and maintenance projects are not prioritized as part of the budget process and we recommended that this be done. We noted that an unplanned maintenance expenditure arose during

fiscal 2000 and a decision was made to defer certain budget items to accommodate this expenditure. There was no documentation to support the rationale for deferring these budget items. Prioritization of capital and maintenance items for budget purposes would provide support when changes to the approved budget are necessary.

13.39 *Post-completion analysis* - A post-completion analysis is often completed by entities after the completion of significant projects. It documents the results of each project in comparison to plans and also notes the resolution of problems which arose during the project. An inspection which includes the identification of deficiencies is presently completed at the end of significant projects undertaken by the Commission. However, we recommended that this inspection be part of a comprehensive post-completion analysis which could be referred to in the planning process for future projects.

Procurement

13.40 *Policies and procedures* - As a crown corporation, the Commission is required to follow guidelines outlined in the Policy on Government Procurement. These guidelines specify that crown corporations are to have internal purchasing guidelines that provide for fair and open purchasing practices. In addition, there is a requirement that goods, services and construction contracts above certain thresholds be publicly advertised.

13.41 We reviewed the Commission's documented Purchasing and Tendering Authority which was approved by the Board. The policies and procedures detailed in this document are consistent with those specified in the Provincial Procurement Policy. However, we were unable to determine whether there is compliance with the policies and procedures detailed in this Authority. This is discussed further in the following paragraphs.

13.42 *Transaction testing* - We selected a sample of 31 transactions during the 2000 fiscal year to determine whether there was compliance with the Commission's Purchasing and Tendering Authority. The sample included items from the three threshold limits specified in the Authority. The Authority notes that quotes are to be obtained for items at the lowest threshold, tenders are to be solicited for items in the middle range, and items which exceed the maximum threshold are to be publicly advertised.

13.43 We were unable to determine compliance with all aspects of the Authority related to quotes and solicited tenders. The procedures for purchasing goods, obtaining services and awarding construction contracts below the maximum threshold are the same. While all transactions we reviewed at these levels were properly approved, there was no documentation to support whether the required number of quotes or tenders were received for each item purchased or expenditure incurred.

13.44 Of the six transactions that required public advertising under the Commission's Purchasing and Tendering Authority, five were in compliance. There was a minor deviation in the remaining item.

13.45 *Macdonald Bridge Expansion Project* - The Commission undertook an expansion project on the Macdonald Bridge which was substantially completed during 1999. The project included adding a third lane to the bridge (in connection with replacing portions of the bridge deck) as well as new ramps, sidewalks and other components.

13.46 For this audit, we focused on reviewing the contracts awarded for adherence to procurement policies. We also reviewed Board minutes to determine if the project was properly approved. We note that under its Act, the Commission does not require Executive Council approval for capital projects. However, Executive Council approval must be obtained for financing (specified in Section 18 of the Act) and we determined that this was obtained for the Toll Revenue Bonds Series I in 1997.

13.47 A proposal for the expansion project was presented to the Board in 1994 with an estimated cost of $36.0 million and the Board agreed to proceed. We understand that this amount was based on a preliminary cost estimate provided by the Commission's consulting engineers. The Commission received approval for an expenditure of $51.2 million from government in April 1997. This increase reflects the expanded scope of the project from 1994 and is based on more detailed cost projections. An additional $4.0 million related to the construction of the Barrington Street ramp was approved by the Board in September 1998 after the project for the construction of the ramp was assumed by the Commission from HRM. The actual cost of the total expansion project was $55.3 million.

13.48 Three phases of the project were tested for compliance with procurement policies - renovations to the Dartmouth plaza, the bridge span portion, and construction of the Barrington Street ramp. Contracts were awarded for each of these phases through public advertising. We found no deviations from the Commission's procurement policies.

CONCLUDING REMARKS

13.49 The Halifax-Dartmouth Bridge Commission's financial position has improved since our last review of its operations. The long-term debt of the Commission is no longer denominated in or subject to the exchange rate risks of foreign currencies. This has improved the ability of the Commission's Board and management to budget and plan its annual activities.

13.50 The Board and committee members appear dedicated to the success of the Commission and are closely involved in its operations. This conclusion is supported by the fact that there have been a total of approximately 100 Board and committee meetings since January 2000. Our suggestions with respect to improved documentation in certain areas will facilitate the transition for new Board members as current appointments expire.

Exhibit 13.1

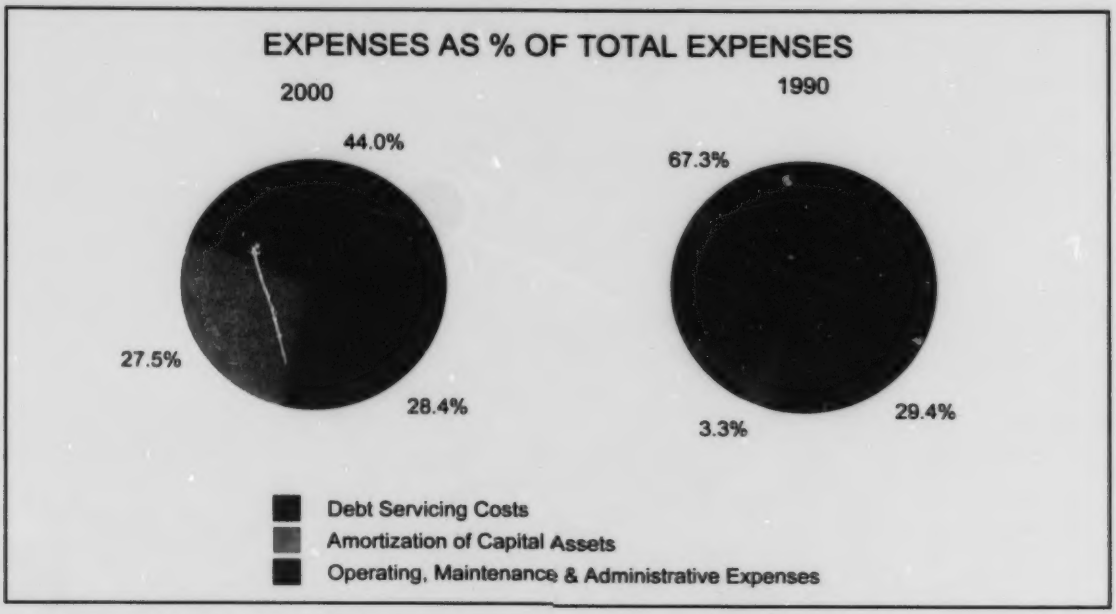
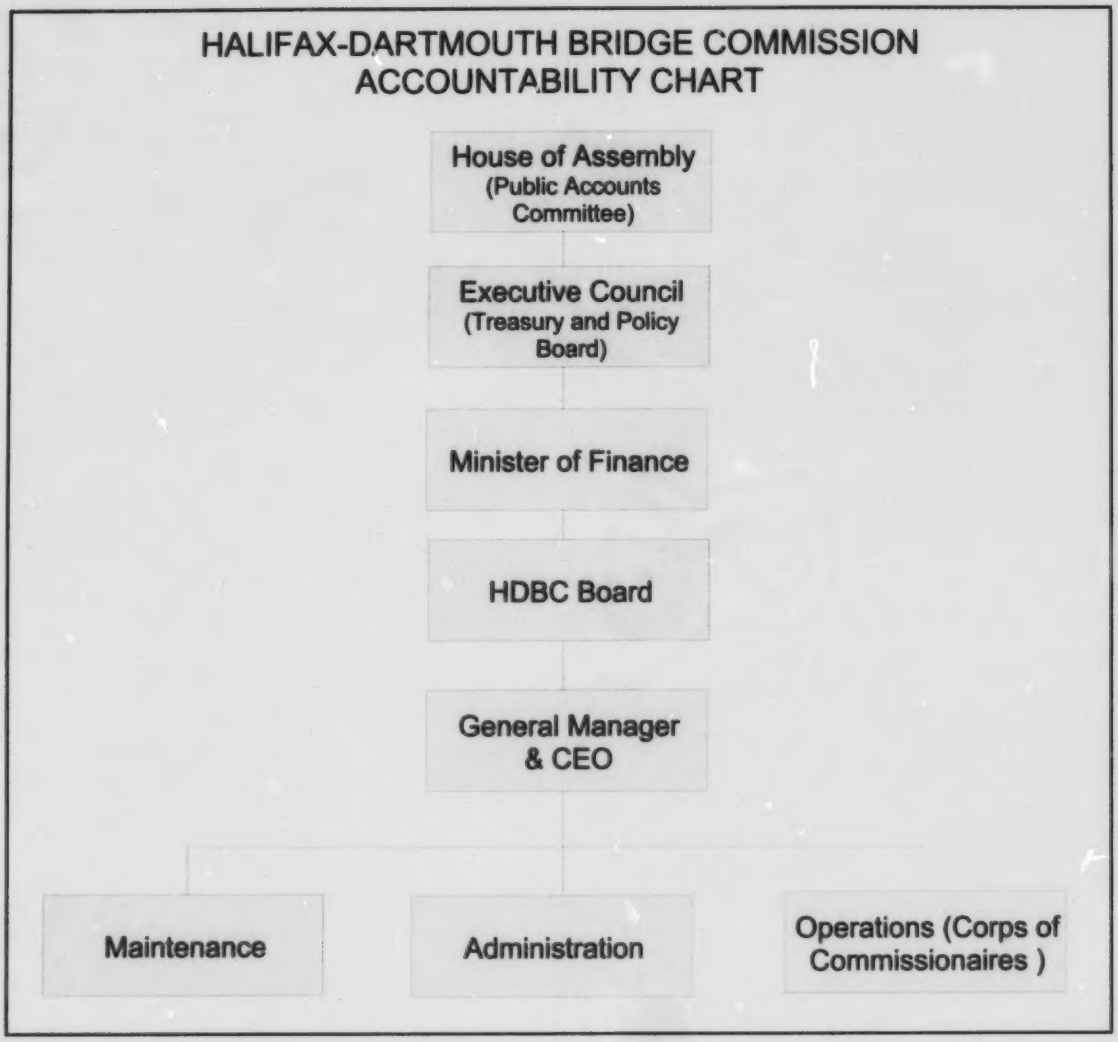

EXPENSES AS % OF TOTAL EXPENSES
2000
44.0%
27.5%
28.4%
1990
67.3%
3.3%
29.4%
Debt Servicing Costs
Amortization of Capital Assets
Operating, Maintenance & Administrative Expenses

Exhibit 13.2


HALIFAX-DARTMOUTH BRIDGE COMMISSION
ACCOUNTABILITY CHART
House of Assembly
(Public Accounts Committee)
Executive Council
(Treasury and Policy Board)
Minister of Finance
HDBC Board
General Manager & CEO
Maintenance
Administration
Operations (Corps of Commissionaires)

14.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

14.1 The financial statements of crown corporations, agencies and funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act. A list of crown corporations, agencies, funds and trusts that prepare annual financial statements is included in Appendix II of this Report, on page 265.

14.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities whose financial statements are reported on by private sector auditors. This Chapter of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

14.3 The financial statements of the Public Archives of Nova Scotia were subjected to a review, rather than an audit, as the operating budget of the Archives is now part of the annual budget of the Department of Tourism and Culture.

14.4 The financial statements of the Central Regional Health Board were also subjected to a review, rather than an audit, as the Health Board was audited as part of the combined financial statements of the Capital District Health Authority.

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

14.5 We reviewed the audited financial statements and reports prepared by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

14.6 The following observations resulted from our review.

Reservations of Opinion

14.7 The following entities' auditors issued qualified audit opinions on the financial statements.

14.8 *Art Gallery of Nova Scotia* - As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is not an unusual situation for charitable organizations.

14.9 *Sydney Steel Corporation* - The Province of Nova Scotia has committed to assume direct legal responsibility for unfunded pension costs and obligations as well as environmental matters

relating to the Sydney Steel Corporation site. The Corporation has not disclosed the obligations related to these matters on the statement of loss, nor has it disclosed the offsetting contribution by the Province of Nova Scotia on the statement of shareholders equity (deficiency). Therefore, the financial statements are not in accordance with Canadian generally accepted accounting principles.

14.10 *Nova Scotia Liquor Commission* - The Commission did not record certain types of employee future benefits but is required to do so under Canadian generally accepted accounting principles. As a result, the auditors were unable to determine the significance of adjustments required to long-term liabilities, stores' operating expenses, warehousing and distribution expenses, administrative expenses and earnings from operations.

Financial Controls and Records

14.11 In certain instances, private sector auditors reported weaknesses in internal control in management letters to crown corporations or agencies. The following are selected observations from the management letters issued and available for our review.

- The auditors of the Halifax-Dartmouth Bridge Commission noted there is a need to compile a detailed inventory of land holdings and related costs, particularly those on either side of the MacKay Bridge.

- The auditors of the Nova Scotia Liquor Commission noted that the aging of accounts receivable was at issue and there is a need to increase collection of overdue accounts. In addition, some vouchers are being sold at cost, but redeemed at retail, resulting in a negative voucher balance. Controls should be put in place to reconcile vouchers sold to vouchers redeemed. Also, they recommended that all system documentation and backup disks be kept at an off-site location. Concern was also expressed over the level of computer controls.

- The auditors of the IWK-Grace Health Centre noted that payroll audit reports are not being reviewed by management on a regular basis and recommend a review be done monthly. Also, a reconciliation of investment allocations should be prepared separately for each fund within each foundation. Quarterly external grant updates should be provided to accounting staff for reconciliation to external grant expenses and payables. A reconciliation of donation revenue should be put in place to ensure revenue within the general ledger is allocated to the correct fund.

- The auditors of the Annapolis Valley Regional School Board noted the need for increased control over fundraising at the school level.

- The auditors of the Halifax Regional School Board made reference to weaknesses in internal controls and the policies and procedures related to the information technology system, as well as weaknesses in the internal controls of the payroll department.

    - Facilities Rentals - Contracts should be standardized across the School Board, show the rate the client will be charged and be reviewed by an appropriate individual. A record should also be kept of all cancellations and alterations made to invoices.

    - EXCEL Program - There is a need for the independent review of registration and cancellation of enrollment forms along with the aged receivables listing. To better allow area supervisors to answer customer questions, they should be given read only access to the EXCEL Program. Cheques made payable to the Program should be cashed as soon as possible after being received.

- International Students Program - There is a need for an independent agreement of the accounting clerks revenue spreadsheet numbers to the amounts recorded in the general ledger. There is also an overall accounts receivable segregation of duties issue.

- The auditors of the Southwest Regional School Board reported concerns over the level of computer controls at the Board.

- The auditors of the Trade Centre Limited noted that revenue from Events Halifax should only be recorded when there is a signed contract in place or cash has been received. Also, the Centre should record the accrual of vacation benefits as required under Canadian generally accepted accounting principles.

- The auditors of the Waterfront Development Corporation noted that accounts receivable need to be aged and reviewed on a timely basis. Concern was also expressed over data backup procedures.

- The auditors of District Health Authorities 1, 2 and 3 noted that there could be possible increases to HST recoveries and potential HST offsets. Concern was also expressed over the level of computer controls.

- The auditors of District Health Authorities 4, 5 and 6 noted a reconciliation of accounts payable invoice batches to cheque runs should be implemented. Concern was also expressed over the level of computer controls.

- The auditors of the Capital District Health Authority noted issues at certain of the Authority's locations.

  - Central Regional Health Board - There is a need for increased controls, in particular, appropriate signatures on expense claims, the need to segregate duties in the payroll department and the requirement of a purchase order for every purchase made.

  - Queen Elizabeth II Health Sciences Centre - The billing and accounts receivable computer system needs updating.

  - Nova Scotia Hospital - Segregation of duties in the payroll department, specifically the clearing of exception reports, is needed.

- The auditors of the Nova Scotia Art Gallery noted that more attention must be paid to the calculation and accounting for HST. Also, required adjustments were not made after the inventory was counted and there is insufficient backup for journal entries. A segregation of duties needs to be established for the shipping, billing and collection of revenue for the Product Development Fund. Transactions for the transfer of goods between the Product Development Fund and the Gallery Shop need to be recorded in the general ledger. Intercompany balances between the Product Development Fund and the Gallery Shop are not separated from regular receivables, payables or inventory. Art Gallery goods on consignment with third parties are recorded as accounts receivable when they are actually inventory. Goods on consignment with the Art Gallery are recorded as inventory. These goods are not the assets of the Art Gallery and therefore should not be recorded as such.

- The auditors of the Nova Scotia Alcohol and Gaming Authority have expressed concern as to the level of computer controls at the Authority. They have highlighted

several key concerns such as the need to grant individuals access only to the data they need. A process needs to be put in place which allows for the monitoring and validation of the security measures in place in terms of the link to the Internet. The technology resource policies and procedures and the information technology relationship between the Authority and the Province of Nova Scotia need to be formally documented. Formal policies and procedures also need to be put in place with regards to updating the Authority's web-site.

- The auditors of the Nova Scotia Community College noted that there is only one staff member trained to carry out payroll transfers. It is recommended that another staff member be trained as backup for this function.

FINANCIAL STATEMENT AUDITS BY THE OFFICE OF THE AUDITOR GENERAL

14.12 The Auditor General is responsible for the annual audit of the summary consolidated financial statements of the Province of Nova Scotia. See Chapter 2 for comments and observations.

14.13 The Auditor General is also responsible for the annual financial statement audits of certain crown corporations, agencies, funds or trusts. The following observations resulted from such audits conducted by or for the Office. For the year ended March 31, 2001, the Office contracted ten financial statement audits with private sector audit firms. The Office signed contracts with these firms and provided oversight supervision for the audits. The auditor's report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

14.14 As the result of an audit, an opinion is expressed on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on the matter.

14.15 The auditor's reports on the March 31, 2001 financial statements of the Nova Scotia Business Development Corporation and the Industrial Expansion Fund were qualified because approval of write-offs was outstanding when the statements were released. Section 23 of the Provincial Finance Act requires all such write-offs be approved by the Executive Council. Subsequent to the release of the financial statements, the write-offs were approved by an Order in Council.

14.16 The auditor's report on the March 31, 2001 financial statements of the Nova Scotia Talent Trust was qualified because the Trust derives revenues from fund raising activities and donations. The completeness of this revenue is not susceptible to conclusive audit verification. This is not an unusual situation for this type of organization.

14.17 The auditor's report on the March 31, 2001 financial statements of the Public Trustee was qualified because the nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for trust funds.

14.18 The auditor's report on the March 31, 2001 financial statements of the Atlantic Provinces Special Education Authority was qualified because the Authority derives revenues from donations and bequests. The completeness of this revenue is not susceptible to conclusive audit verification. This is common for such an organization. The Report was also qualified because the accounting for Public Service Awards payable to employees upon retirement is on a cash basis. The amount of the required adjustment cannot be determined as an actuarial valuation has not been performed.

System Weaknesses

14.19 During the Office's financial statement audits, situations were noted where accounting and control systems or procedures were deficient. Although they were not of a magnitude to require reservations of the audit opinion, a number of these situations are summarized in this Chapter.

14.20 *Nova Scotia Business Development Corporation and Industrial Expansion Fund* - All loans should be reviewed annually to ensure there is adequate information to assess the provision for doubtful loans. Also, an annual verification of contract terms which relate to loan forgiveness is required to ensure loan forgiveness is only earned in accordance with the terms of the loan contract. Appraisals of industrial parks and malls took place in 2001, as recommended in 2000. It should be noted that the loan files were substantially more complete in the current year than in previous years. Concern was also expressed over the level of computer controls.

14.21 *Nova Scotia Film Development Corporation* - The recording of loans issued as current expenditures is not in compliance with Canadian generally accepted accounting principles.

14.22 *Nova Scotia Housing Development Corporation* - The Department of Community Services and the Corporation year-end accruals related to Canada Mortgage and Housing Corporation (CMHC) should be consistent with the Corporation's claim submitted to CMHC. Also, further steps should be taken towards consolidated financial statements and compliance with Canadian generally accepted accounting principles.

14.23 *Nova Scotia Crop and Livestock Insurance Commission* - Manually prepared plans should be approved and signed by an appropriate official to ensure accuracy. Also, investment income should be calculated and accrued on a monthly basis.

14.24 *Nova Scotia Legal Aid Commission* - The Commission needs to develop an asset capitalization policy as some assets are currently being expensed. There is also a need to reconcile the accounts payable subledger to the general ledger on a timely basis. Rebates should be claimed for HST on travel expenses. The review of bank reconciliations needs to be documented. The Commission should ensure all invoices issued are dated. Payroll Transaction Proof Reports need to be reviewed by management. Concern was also expressed over the level of computer controls.

14.25 *Upper Clements Family Theme Park Limited* - The operator was not complying with the lease agreement as it had allowed insurance coverage to expire at March 31, 2001. A new policy was purchased May 31, 2001.

14.26 *Nova Scotia Talent Trust* - Internal controls, especially the signing of cheques, need strengthening.

14.27 *Long Term Disability Plan Trust Fund* - Recent performance and other information on investment income, number of claimants, the premiums/claims ratio and EI reductions emphasize the need for the recently developed funding strategy to deal with the plan's large unfunded liability. The Board of Trustees is strongly encouraged to devote maximum effort towards the implementation of these strategies.

14.28 *Nova Scotia Public Trustee* - The Trustee should move from the cash basis to the accrual basis of accounting in order to comply with Canadian generally accepted accounting principles. There is also a need for consistent timing of the valuation of investments and real estate for reporting purposes. Also, a reconciliation of the mailbook to the deposit slips is needed. The investments of the trustee should be adjusted to market values at year end.

14.29 *Atlantic Provinces Special Education Authority* - Formal policies to address collection and regular summary reporting of overdue accounts receivable and the approval of write-offs should be put in place. As well, there is a need for improved management reporting in the audiology business area. Management should also issue instructions to staff to facilitate proper cut-off and matching of costs and revenues.

Legislative and Policy Compliance Considerations

14.30 We noted situations where there was lack of compliance with legislation or policy. Although they were not of a nature to require a reservation of the audit opinion, some were significant enough to warrant discussion in this Chapter.

14.31 *Members' Retiring Allowances Act* - To better comply with the Act, the financial statements should be tabled before their usual tabling in Volume II of the Public Accounts. The statements are normally available earlier than the date of tabling of the Public Accounts. Amendments need to be made to the Act to allow for the issuance of a formal waiver from the Canada Customs and Revenue Agency with regards to member contribution limits. These necessary amendments need to be initiated by the Report of the Commission of Inquiry. A separate account should be formed for the Members' Supplementary Retiring Allowances Plan to allow for the segregation of contributions, interest, refunds and allowances from the Members' Retiring Allowances Plan.

Timeliness of Financial Reporting

14.32 In our view, as a minimum, financial statements should be available for release within six months of year end. Our review this year noted, in addition to the Province's summary consolidated financial statements, the audited financial statements of the Nova Scotia Farm Loan Board were not released within six months of year end.

14.33 It should be noted that recent amendments to the Provincial Finance Act now require that financial statements for government business enterprises and government service organizations be submitted to the Minister of Finance before June 30 following their fiscal year end.

14.34 The Province's summary consolidated financial statements for the fiscal year ended March 31, 2001 were released on November 16, 2001, six weeks prior to the statutory deadline of December 31.

OTHER AUDIT OBSERVATIONS

15.

ADDITIONAL APPROPRIATIONS

BACKGROUND

15.1 Every year the *Estimates*, representing the government's spending plans, are presented to the House of Assembly for review and approval. The Estimates are summarized in the Appropriations Act, which provides the spending authority for the coming year.

15.2 The review and debate by the House of government's annual Estimates culminates in the approval of spending authority limits (i.e., appropriations), and has a long and well-established tradition in the parliamentary process.

15.3 The Provincial Finance Act provides Executive Council with the authority to approve adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits Executive Council to approve special warrants when an expenditure, which was not provided for in the original Estimates, is urgently and immediately required.

15.4 Exhibit 15.1 on page 235 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants.

15.5 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of any additional appropriations or special warrants authorized for the fiscal year. Under Section 9A(1)(c) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

15.6 The following are the principal results from our 2001 review of additional appropriations and special warrants.

- Formal approval of additional appropriations totalling $450 million and $658 million is required for the years ended March 31, 2001 and March 31, 2000 respectively. It must be acknowledged that a significant portion (i.e., more than half) of these totals relate either to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles (GAAP) or to unusual items, both of which would not have been considered in the estimates process for those years.

- There were no special warrants approved for the 2000-01 fiscal year.

SCOPE OF REVIEW

15.7 The objective of our annual review of additional appropriations and special warrants is to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act.

PRINCIPAL FINDINGS

Additional Appropriations

15.8 In our view, incurring expenditures before the necessary additional spending authority is in place may be contrary to the Provincial Finance Act. Further, the timing of these approvals impairs the effective control of and accountability for expenditures in excess of original spending authority limits.

15.9 A detailed listing of the status of all appropriations approved by the 2000 Appropriations Act can be found on Page 71 of the Public Accounts of Nova Scotia, Volume 1 - Financial Statements for the fiscal year 2000-01. Several of these appropriations were exceeded and the sum of $450,203,000 is required in the form of additional appropriations. Further, there was still a total of $658 672,000 in additional appropriations requiring approval for fiscal year 1999-2000.

15.10 It must be acknowledged that a significant portion (i.e., more than half) of these totals relate either to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles (GAAP) or to unusual items, both of which would not have been considered in the estimates process for those years.

15.11 As at the date of writing this Chapter in late 2001, we are not aware that the Orders in Council necessary to formally approve these additional appropriations have been put in place. There was a House Resolution tabled on May 30, 2001 for the overspending incurred in the 1999-2000 year, but it had not yet been approved by the House of Assembly. Since the Expenditure Control Act was repealed in the spring 2000 session of the Legislature, a House Resolution was not required for the overspending in the 2000-01 fiscal year.

Special Warrants

15.12 We are required under Section 9A(1)(f) of the Auditor General Act to call attention to every case in which *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money."* The Provincial Finance Act allows the Executive Council to approve a special warrant, when the Legislature is not in session, which authorizes *"an expenditure which was not provided for by the Legislature"* and *"is urgently and immediately required for the public good."*

15.13 There were no special warrants approved for the 2000-01 fiscal year.

CONCLUDING REMARKS

15.14 Expenditure of funds beyond the appropriations approved by the House of Assembly continued to occur prior to Executive Council approval required under the Provincial Finance Act. The Department of Finance has indicated that the determination of exact numbers is necessary to avoid seeking additional appropriations for minor amounts.

15.15 Current legislation and administrative practices raise questions as to the effectiveness of the House of Assembly's control over the expenditure of public funds. The practice of obtaining after-the-fact approval for additional appropriations does not necessarily constitute *effective control* and, we believe, may contravene the intent of statutory requirements in this regard.

15.16 Further, with financial accounting and reporting now on an accrual (versus cash) basis in accordance with GAAP, the current appropriations process or focus cannot provide adequately for the effective control of the public purse by the House. Government recognizes this and is considering options in order to improve the process.

Exhibit 15.1

EXTRACTS FROM THE PROVINCIAL FINANCE ACT

Prerequisite to issue of money
13(2) *The Deputy Minister* [of Finance], *or an officer designated by him, before the issue of public money out of the Consolidated Fund, shall ensure that there is sufficient balance available in the appropriation for the specified purpose.*

Consequences of exhausted appropriation
13(3) *When an appropriation is exhausted, the Deputy Minister shall forthwith notify the department to which the appropriation was granted and the Minister, and shall not sanction any further contractual obligations or commitments to be charged to the exhausted appropriation.*

Suspension of right to commit
27(A) The Governor in Council, upon the recommendation of the Minister, may order the suspension for such a period as the Minister deems fit of the right to commit any appropriation or part thereof except the salaries, wages and expenses of members of the public service, including the civil service, or the indemnities and expenses of the members of the House of Assembly.

Report of insufficient appropriation
28(1) *When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for an ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made or that the sum appropriated by the Legislature to be expended on capital account is insufficient for the service for which it was appropriated, the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service.*

Supplementary appropriation
28(2) *Upon the receipt of such report, the Minister of Finance may make a report to the Governor in Council showing the need of additional appropriation and thereupon the Governor in Council may order that such additional sums as are deemed necessary for the said service be appropriated accordingly, provided that the additional sums appropriated to be expended on capital account shall not exceed twenty-five per cent of the amount appropriated by the Legislature for the service.*

Report of urgently required expenditure
29(1) When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.

Special warrant
29(2) Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefore, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.

Conditions for special warrant while House in session
29(3) A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.

16.

CASH AND OTHER LOSSES

BACKGROUND

16.1 The Government of Nova Scotia Management Manual 200, Chapter 8 requires that departments, boards, or commissions report any instances of loss of public money or public property to the Department of Finance and to the Office of the Auditor General. Finance is responsible for establishing procedures to be followed for the reporting of any irregularities or losses.

16.2 Section 9A(1)(e) of the Auditor General Act requires that we report annually every case observed where there has been a deficiency or loss through fraud, default or mistake of any person. This chapter summarizes the losses identified by or reported to us by entities included as part of the Government Reporting Entity (see Appendix II for listing).

RESULTS IN BRIEF

16.3 The following summarizes the principal findings from our review.

- The losses reported to us for the year ended March 31, 2001 totaled $560,139; consisting of cash losses of $41,539, property losses estimated at $817,296 and recoveries of $298,695.
- Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

SCOPE OF REVIEW

16.4 Our objective was to review the information provided by departments and agencies and compile a summary listing of the cash and property losses reported to us for the year ended March 31, 2001. This review did not consider write-offs of uncollectible receivables or advances approved annually by Executive Council.

16.5 We sent letters to departments and other crown entities to confirm the completeness of the losses reported to us. We have performed no additional or specific audit procedures on the losses reported.

PRINCIPAL FINDINGS

Losses Reported

16.6 The following is a summary of the cash and property losses for the year ended March 31, 2001 identified either as a result of our confirmation request or reported to us during the year. Losses reported for property lost or damaged are determined by the entities on a historical cost, estimated market value or estimated replacement cost basis.

Departments Reporting Losses	Cash	Property	Recoveries	Total
Agriculture and Marketing	$ -	$ 20,212	$ (14,450)	$ 5,762
Business and Consumer Services	423	3,787	-	4,210
Community Services	-	4,934	(2,424)	2,510
Economic Development	50	4,200	-	4,250
Education	-	7,786	-	7,786
Finance	-	3,000	-	3,000
Health	-	3,571	-	3,571
Housing and Municipal Affairs	1,540	186,787	(180,500)	7,827
Justice	339	10,721	-	11,060
Labour	-	100	-	100
Natural Resources	-	7,366	(6,161)	1,205
Transportation and Public Works	-	98,305	-	98,305
Tourism and Culture	-	2,209	-	2,209
	2,352	352,978	(203,535)	151,795
Other Crown Entities Reporting Losses				
Highway 104 Western Alignment Corporation	-	16,625	(3,108)	13,517
Nova Scotia Liquor Commission	5,453	318,498	-	323,951
Sydney Steel Corporation	-	3,000	-	3,000
Advisory Council on the Status of Women	-	400	-	400
Art Gallery of Nova Scotia	-	1,013	-	1,013
Communications Nova Scotia	29,265	-	-	29,265
Council of Maritime Premiers	-	6,456	(3,956)	2,500
District Health Authority #4 (Colchester East Hants District Health Authority)	-	1,850	-	1,850
District Health Authority #5 (Cumberland Health Authority)	-	28,909	(27,909)	1,000
District Health Authority #6 (Pictou County District Health Authority)	-	19,477	(16,647)	2,830
District Health Authority #9 (Capital District Health Authority)	-	36,586	(28,874)	7,712
Izaak Walton Killam-Grace Health Centre	-	2,844	(11,266)	(8,422)
Nova Scotia Community College	1,316	28,660	(3,400)	26,576
Nova Scotia Utility and Review Board	26	-	-	26
Workers Compensation Board	3,127	-	-	3,127
	39,187	464,318	(95,160)	408,345
Total Reported	$ 41,539	$ 817,296	$ (298,695)	$ 560,140

16.7 Regional School Boards reported cash losses totaling $32,000 and property losses totaling $166,630. The Regional School Boards made no recoveries in the year ended March 31, 2001. They have been excluded from the above listing due to the fact that the Boards have their own insurance system.

16.8 With regard to the Nova Scotia Liquor Commission, it should be acknowledged that it is a retail organization. As such, it is subject to different risks of losses. The property losses reported for the Nova Scotia Liquor Commission represent the cost of inventory stock losses from its retail and warehouse operations. As a self-service retail organization, it is inevitable that some inventory shrinkage will occur.

Compliance with Reporting Requirements

16.9 Not all entities are complying with the requirement to report losses on a timely basis to the Department of Finance and this Office. Failure by some entities to report consistently and on a timely basis restricts Finance's ability to ensure that necessary follow-up procedures are performed to determine the reason for a loss and whether appropriate corrective action has been taken.

16.10 As stated above, losses are to be reported to both this Office and the Department of Finance. Finance provides this Office with a summary of the losses reported to it during the year. There were differences in both the number and value of the losses reported to Finance and those reported to this Office. The following departments, reporting losses to this Office, either did not report losses to Finance or reported lesser amounts:

Agriculture and Marketing
Business and Consumer Services
Community Services
Education
Health
Housing and Municipal Affairs
Natural Resources
Tourism and Culture
Transportation and Public Works

16.11 Of the other crown entities that reported losses to this Office, only two entities also reported losses to Finance, but the amounts reported to Finance were less than those reported to this Office.

CONCLUDING REMARKS

16.12 None of the specific losses reported to us with respect to the 2000-01 fiscal year appear to be of such significance (i.e., due to the nature, circumstances or size of the losses) that they warrant further or special attention by this Office at this time. We will consider the results of the Department of Finance internal audit group's work on these reported losses as part of future reviews.

OFFICE OF THE AUDITOR GENERAL

17.

REPORT ON THE OFFICE OF THE AUDITOR GENERAL

INTRODUCTION

17.1 The year 2000-01 was productive for the Office of the Auditor General. It was a year in which the Office made significant efforts to examine its role and renew its strategic directions. It was also a time for further developing the measuring and reporting of Office performance. This Chapter presents a summary of Office accomplishments and activities in 2000-01, a discussion of performance indicators developed for the Office and measurements made against them, as well as the Office's complete 2002-03 Business Plan.

ACCOMPLISHMENTS AND ACTIVITIES

17.2 A number of accomplishments occurred during the period preceding the publishing of this Report.

- A formal strategic planning exercise was conducted which led to a renewal of the Office's mission, vision, long-term goals and planned strategic initiatives.
- Through the work of task groups comprised of professional staff of the Office, new processes were developed for ensuring audit quality, identifying training opportunities, and measuring and reporting performance.
- Decisions were made on audit priorities. Goals were set for expanding the broad scope auditing done by the Office, and plans were made for developing an approach for auditing and reporting on government non-financial performance information.
- Processes were implemented to improve staff communication and the transfer of professional knowledge.
- Steps were taken to ensure the objectivity and independence of professional staff in the conduct of audit assignments.
- The Office has been engaged to audit the performance report of the Department of Health required by September 2002 under the Communiqué on Health agreed to at the September 2000 First Ministers' Meeting. Nova Scotia was the first legislative audit office in Canada to be so engaged. This is a significant development for the Office as it will be our first audit of a non-financial performance report.
- The Office completed its third annual audit of the Province's summary consolidated financial statements. Significant efficiencies were experienced this year, resulting in fewer hours being required to do the audit.
- 22 other financial statements audits were performed by the Office for the year ended March 31, 2001. Of these, ten were contracted out to private sector firms.

- 11 broad scope audits were performed and are presented in this Report.
- The Office continues to be the only legislative audit office in Canada to be engaged to review the revenue estimates of a government.
- Five staff members are training to become professional accountants. Again this year, the Office employed university co-op students and new graduates enrolled in the Career Starts program.

PERFORMANCE OF THE OFFICE

17.3 The 2002-03 Business Plan of the Office of the Auditor General is presented in Exhibit 17.1 to this Chapter. Section 8 of the Plan presents performance areas and indicators developed by the Office, as well as some performance measurements and targets for the indicators described. As with most public sector organizations, performance measurement and reporting is an evolving process in the Office and will continue to improve as the Office's capacity to measure performance develops and needed information becomes available.

17.4 The following paragraphs summarize and explain Office performance according to the five performance areas identified in the Business Plan: client services, professional standards, resource allocations, audit efficiency, and human resources. Because performance measurement was under development during the year, there were no 2000-01 targets set for any of the indicators described. However, targets have been set for future periods. Refer to Section 8 of the Plan for more information about the performance indicators discussed below.

17.5 *Client services* - The primary clients of the Office are the members of the House of Assembly, and through them, the Nova Scotia public. The principal service provided is the conduct of audits and the reporting of results to our clients. The Office has a significant number of government entities which fall under its mandate and it is not possible to audit each on an annual basis. Therefore, the Office must monitor the regularity with which it conducts audits in these organizations to ensure audit resources are expended strategically. We have determined that the Office has conducted audits in 53% of the larger entities at least once during the last five years. Without additional resources, a significant increase in this figure will not be possible. However, as the Office believes its clients receive more value from broad scope audits, any increase in audit coverage achievable will be in the broad scope area.

17.6 The Office provides assistance to the House of Assembly through direct reporting to the Legislature, and through interaction with its all-party Public Accounts Committee (PAC). The Office was represented at every meeting of the PAC during the year, except for those dedicated to the writing of the Committee's annual report.

17.7 The objective of a financial statement audit is to provide an opinion on the fairness of presentation of the statements. If a positive (or unqualified) opinion cannot be provided, a qualified opinion is issued. We advise entities audited on how they can achieve and maintain fair presentation. Last year, we issued five qualified Auditor's Reports. Three were the result of an inherent inability to verify certain revenues or receipts, typical for entities which receive donations or similar assets. Accordingly, we will continue to advise the two other entities audited on how to prepare financial statements which will not result in qualified opinions in future years.

17.8 *Professional standards* - The Office follows the professional standards of the Canadian Institute of Chartered Accountants (CICA). Because the Office is licensed to train individuals seeking to become chartered accountants, it is subject to a practice review by the Institute of

Chartered Accountants of Nova Scotia. A significant part of the review is to determine if the Office complies with professional standards. The last practice review by the Institute was for 1999. The review found that the Office was in compliance with professional standards, though some recommendations were made. All of the recommendations, except one, were implemented. A recommendation on how to report on financial statements prepared on a basis other than generally accepted accounting principles (GAAP) has not yet been implemented. The professional standards relating to this issue are not clear, and further guidance is required from the CICA before proceeding on the matter. Nonetheless, we will continue to encourage and advise the relevant entities to change their accounting practices so they are in full compliance with GAAP.

17.9 *Resource allocation* - The primary revenue sources for the Office are funds provided through the budgetary appropriation and the billing of certain audits. This revenue is expended mainly on the salaries of staff. The hours worked by staff are recorded and monitored.

17.10 For the year ended March 31, 2001, the Office committed 68% of all recorded hours to audit activities. Five percent went to professional development activities, 11% to administration, and 16% to various types of leave (e.g., vacation, illness, secondment). We believe the amount of time committed to professional development and administration is reasonable. We will seek ways to increase the portion of hours committed to audit activities in the future.

17.11 The Office had a net budget of $1,850,000 for the year ended March 31, 2001. Actual net expenditures were approximately $121,000 (7%) less than budgeted because salaries and benefits were underspent. The Office strives to maintain a full complement of professional staff in order to maximize hours available for audits. However, turnover does occur and delays in filling vacancies lead to underexpenditures on salaries and benefits.

17.12 *Audit efficiency* - The Office monitors the accomplishment of audit target dates, as well as various financial ratios relating to its audit activity.

17.13 Government organizations which prepare their own financial statements are required by legislation to submit their statements to the Minister of Finance by June 30 each year. Many of these organizations have their financial statements audited; some by our Office and others by private sector firms. The timely completion of an audit is dependent on a number of issues, such as the start date for an audit, readiness of the organization for audit, availability of information required during an audit, efficiency of the audit team, timely review of draft financial statements and the resolution of audit issues upon completion of audit fieldwork. Thus, the accomplishment of audit target dates is dependent on both the auditor and the auditee. Of the 22 March 31, 2001 financial statements audited by the Office, nine were completed and issued by June 30, 2001. In each case, audit fieldwork was completed prior to the target date, but clearing of draft financial statements and audit issues led to the 13 instances of financial statement audits not being completed prior to June 30. The Office will examine the reasons for these delays and work with auditee management to try to make post-fieldwork completion of audits more timely.

17.14 Target dates were accomplished for the audit of government's summary consolidated financial statements, as well as for the review of 2001-02 Revenue Estimates.

17.15 For the year ended March 31, 2001, the Office expended the equivalent of $1.83 for each member of the Nova Scotia public, $0.32 for each $1,000 of government revenue, or $50.28 for each hour of staff time spent on audit activity. We believe these financial indicators give perspective on the efficiency with which the Office uses its resources. However, these measures will become more meaningful as they are tracked over time and compared to similar measurements by other legislative audit offices in Canada.

17.16 *Human resources* - The Office's success depends on maintaining a group of experienced, highly-trained and well-motivated staff. The Office monitors the amount of time spent by staff in professional development activities and the amount of staff turnover experienced each year.

17.17 For the year ended March 31, 2001, on average, staff members committed 12 days to professional development activities. This includes time committed by students in programs leading to a professional accounting designation. On average, student training time is higher than this average, and the time for professional staff is lower. The average is down from 20 days in the preceding year because an extensive in-house course on broad scope auditing was provided to staff in 1999-2000. This course is not offered each year. Based on benchmarking with other legislative audit offices, we believe 15 days would be an appropriate average amount of time for staff to spend on professional development activities.

17.18 Three staff members left the Office between November 1, 2000 and October 31, 2001 - one due to retirement, one relocated to another Provincial entity, and one to the private sector. Three individuals were hired during this period, each at a student auditor level. The Office prefers to have some staff turnover in order to maintain career development opportunities for staff. Hiring at the student level promotes this objective.

PLANNING FOR THE FUTURE

17.19 Each fall, the Office prepares a plan for the following year. The 2002-03 Business Plan for the Office is presented in its entirety in Exhibit 17.1 to this Chapter. Much of the Plan originated from the strategic planning conducted by the Office in 2001. The Plan describes the mission, vision and mandate of the Office. It describes major challenges faced and provides a budget for the ensuing year. The Plan highlights the Office's strategic goals, core business areas and priorities for 2002-03. Section 8 identifies the primary performance indicators used by the Office, and presents some performance information prepared to date.

Exhibit 17.1

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NOVA SCOTIA
2002-03 BUSINESS PLAN

OFFICE OF THE AUDITOR GENERAL
PROVINCE OF NOVA SCOTIA
2002-03 BUSINESS PLAN

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1. Mission and Vision

The mission of the Office of the Auditor General expresses who the organization serves, how it serves them, and what it hopes to achieve.

> To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

The vision of the Office of the Auditor General expresses its aspirations for itself, as well as the greater outcome it wishes to be a prime contributor towards.

> Demonstrating and being recognized for independence, professional excellence, and credibility.
>
> Making a significant contribution in support of an accountable and well-performing government.

2. Planning Context

Mandate - The Office of the Auditor General is an organization created and empowered by the House of Assembly of Nova Scotia. The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989) and other legislation. The Auditor General Act specifies the responsibility to examine the accounts of the Province, its various agencies and transfer payment recipients, and the requirement to report to the House of Assembly on the government's stewardship of public funds.

The Auditor General helps the House of Assembly to hold government to account by providing opinions:

- on the credibility of financial statements and other government accountability reports;
- concerning compliance with legislation, regulations, agreements, and policies;
- on the adequacy of control; and
- on the extent of due regard for economy and efficiency in the management of public funds.

The Act vests sole responsibility for removal of the Auditor General in the House of Assembly. This protection provides appropriate independence from government.

Organization - The Office is located in Halifax and is comprised of 27 staff, all but three of whom are professional accountants or studying to become a professional accountant. The Office is organized into three teams, each led by a Deputy or Assistant Auditor General. Each team is responsible for auditing a portfolio of government departments and related agencies, boards, commissions and transfer payment recipients. An organization chart is included as Appendix 1 to this document.

Major Challenges - The major challenges faced by the Office can be summarized as follows.

- Ensuring all audits meet the rigorous professional standards of the Canadian Institute of Chartered Accountants, and communicated in a manner which ensures a good understanding of the findings and conclusions derived.
- Setting priorities for the audit of a large number of government departments, agencies and transfer payment recipients, knowing that limited resources will not permit the Office to examine every significant revenue and expenditure area on a regular basis.

- Remaining well versed in the standards and body of knowledge of the numerous professional fields that impact on the scope of our audits (e.g., accounting, auditing, information technology, performance reporting, governance, value-for-money, auditing of compliance with legislation and regulations), and maintaining a good understanding of the structure and operations of the government organizations that we audit.

- Maintaining a full complement and appropriate mix of highly-motivated professional staff at a time when government salaries are not always competitive with private sector salaries.

3. Strategic Goals

As a result of strategic planning, the Office has identified twenty-five goals, organized under six headings. The following is a summary of these goals.

I. To focus on audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.

II. Through the use of knowledgeable staff and best professional practices, to ensure the Office's work meets or exceeds relevant professional standards.

III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.

IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.

V. To ensure the Office manages its resources with due regard to economy and efficiency.

VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.

4. Core Business Areas

The Office has two core business areas, as follows.

- Conduct audits in accordance with generally accepted auditing standards and report to the House of Assembly to help it hold government accountable for its stewardship of public funds.

- Provide advice to government management to help them better manage and account for their performance.

However, the two areas are fully integrated with each other as both are related products of audits conducted. Thus, they cannot be separated for planning purposes and this plan does not differentiate between them when discussing goals, priorities, resource management, etc.

5. Priorities

I. To perform audits of high relevance to the Office's mandate and the needs of the House of Assembly, including work in the area of government performance reporting.

- Develop a strategy and implementation plan for the audit of government performance reports.

- Audit and provide assurance on the performance report which the Department of Health is to have published by September 2002.

- Follow up on the 2000 audit of the Halifax Regional School Board.

- Focus more audit effort in the areas of:

  - treasury management;
  - management use and control of information technology; and
  - government operations relating to offshore petroleum.

II. Through the use of knowledgeable staff and best professional practices, ensure the Office's work meets or exceeds relevant professional standards.

- Establish and implement an expanded quality control process for all assurance work.
- Establish and implement an expanded process for continuous review and updating of audit methodology.
- Improve the Office's process for monitoring and disseminating changes in professional standards and bodies of knowledge.
- Expand our monitoring of best practices in other jurisdictions.

III. To ensure the Office maintains effective communication with the House of Assembly/Public Accounts Committee, Executive Council, government senior management, relevant professional bodies and the public.

- Review the Office's current communication methods and develop a strategy to improve communication with key groups affected by the work of the Office.

IV. To ensure the Office and its staff are, and are perceived to be, independent, objective, ethical and competent.

- Prepare a human resource plan which addresses staff hiring, training and development, compensation and succession/career-path.
- Determine the level of job satisfaction and gather/consider suggestions for improvement.

V. To ensure the Office manages its resources with due regard to economy and efficiency.

- Improve project management and reporting systems and practices.
- Conduct more audits by optimizing the percentage of Office resources committed to assurance work.

VI. To measure and report the Office's performance to the House of Assembly, using benchmarking against performance of other legislative audit offices as one means of evaluating performance.

- Develop a system which will enable us to define, measure and report on the performance of the Office.
- Benchmark Office performance against similar organizations in Canada.

6. Budget Context

The Office derives its funding from an annual appropriation of the House of Assembly, as well as from the billing of audit services in certain situations. The following shows the actual and budgeted expenditures and recoveries of the Office for the years 2000-01 to 2002-03, as well as an estimate of the number of positions which the Office will be able to fund.

	Actual 2000-01	Budget 2001-02	Budget 2002-03[1]
Salaries and benefits	$ 1,560,476	$ 1,718,000	$ 1,653,400
Other staff expenses	76,225	69,000	73,000
Travel	54,233	53,000	53,000
Professional services	67,742	75,000	110,000
Office administration	93,276	145,000	140,600
Total Expenses	1,851,952	2,060,000	2,030,000
Recoveries	122,923	140,000	110,000
Net Expenses	$ 1,729,029	1,920,000	$ 1,920,000

	Actual 2000-01	Budget 2001-02	Budget 2002-03[1]
Staff - Full Time Equivalent	28.1	29.4	27.0

1. The 2002-03 budget and the business plan as a whole are based on a preliminary estimate of the funding available to the Office. If final funding differs materially from preliminary figures, parts of this plan may need to be adjusted.

With these resources, the Office audits the financial statements and reviews the revenue estimates of the Province of Nova Scotia, audits the financial statements of 22 other government organizations, as well as performs approximately 10 to 15 value-for-money/broad scope audits each year.

The Office continually strives to meet its mandate in the most economic and efficient manner possible. Many of the initiatives described above in Section 5 demonstrate the Office's intentions in this regard. Goal V and its related initiatives specifically address the wise use of resources by the Office.

The Office's major expenditure relates to salaries and benefits, which represents approximately 86% of the Office's net expenses. Office administration is only 7% of net expenses. Accordingly, any significant reduction in the funds available to the Office would result in a decrease in staff. All but two staff members are directly involved in providing audit services, thus downsizing would affect the number of audits we do. Certain of our audits are required by Legislation. Any reduction in audits would have to be in the area of non-legislated assignments. This would be in the area of value-for-money/broad scope audits, which comprise most of our discretionary work.

7. Linkages/Partnerships

The Office partners or otherwise works with other organizations in the performance of its work.

- The Office has participated with other legislative audit offices (i.e., Auditors General) in the performance of audits of entities which do business in multiple jurisdictions, and in cases where there are similar government operations in various jurisdictions and there would be efficiency gained from audit offices coming together to plan such assignments.

- The Office engages private sector public accounting firms to conduct certain financial statement audits on behalf of the Auditor General. Such audits are supervised by the Office, and audit opinions expressed are those of the Auditor General.

- Accountants, consultants and specialists are hired on a contract basis to assist with audit assignments performed by the Office.

- The Auditor General works closely with his counterparts in other jurisdictions through the Canadian Council of Legislative Auditors. The Office has worked closely with the Canadian Institute of Chartered Accountants in addressing common issues of concern and the development of public sector auditing and accounting standards. The Auditor General has worked closely with CCAF/FCVI Inc. in their efforts to improve public sector accountability, governance and management.

- On occasion, the Office has partnered with government Internal Auditors on assignments.

The Office continues to seek opportunities where partnerships would improve the quality and efficiency of our work.

8. Performance Measurement

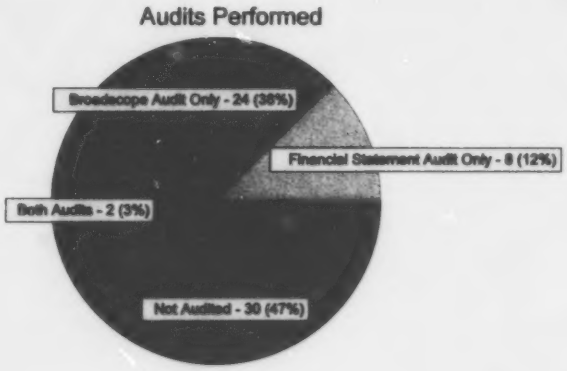
The Office of the Auditor General has identified five categories of performance that will be monitored on an ongoing basis. For each of these areas, performance indicators have been identified and systems of measurement are being developed. Because performance measurement for the Office is under development, this business plan does not present comparatives for some of the performance indicators identified and no targets were available for the periods being reported upon. These measures will be further developed in the coming years as additional performance information becomes available.

CLIENT SERVICE

1. **Performance Indicator** - Number of major entities in which either a financial statement or broad scope audit was performed within the last five years. Financial statement audits include audits done by the Office, as well as those done on behalf of the Office under contract with a private sector firm.

Performance Period - Five years ended October 31, 2001.

Performance Measurement -



Future Years' Targets - To increase total coverage by increasing the number of broad scope audits performed by 10%.

2. **Performance Indicator** - Analysis of types and frequency of assistance provided to the Public Accounts Committee (PAC).

Performance Period - November 1, 2000 to October 31, 2001.

Performance Measurement - Representatives of the Office attended every meeting of the Public Accounts Committee (except report writing sessions) between November 1, 2000 and October 31, 2001. This included two briefings by the Office on the Annual Report of the Auditor General, three briefings by the Office on individual audits performed, and 16 other meetings, most of which involved the Committee interviewing witnesses with respect to various operations and activities of government.

Future Years' Targets - To continue to attend every meeting of the PAC, except those which the committee members dedicate to the writing of the Committee's annual report.

3. **Performance Indicator** - Results of audits of financial statements and review of revenue estimates.

Performance Period - Financial statements for the year ended March 31, 2001, and Revenue Estimates for 2001-02.

Performance Measurement - An unqualified Auditor's Report was issued for government's March 31, 2001 summary consolidated financial statements. A qualified report was issued for its 2001-02 Revenue Estimates. The Office conducted 22 financial statement audits, 5 of which resulted in a qualified Auditor's Report.

Future Years' Targets - To reduce qualified audit reports by advising auditees on how to conform to Canadian generally accepted accounting principles. However, three financial statements will not achieve an unqualified auditor's report because a material amount of the revenues or receipts reported therein are not conducive to audit verification.

PROFESSIONAL STANDARDS

4. **Performance Indicator** - Results of professional practice review performed by Institute of Chartered Accountants of Nova Scotia.

Performance Period - Reviews are conducted every four or five years. The last review addressed audits done for the year ended March 31, 1999.

Performance Measurement - Audits reviewed were determined to have complied with professional standards. A small number of recommendations were made. All recommendations have been implemented, except one pertaining to the type of Auditor's Report issued in cases where the audit entity uses a basis of accounting other than generally accepted accounting principles. We are advising these auditees to adopt a more appropriate basis of accounting, and we are monitoring professional standards under development by the Canadian Institute of Chartered Accountants which may provide additional guidance on this issue.

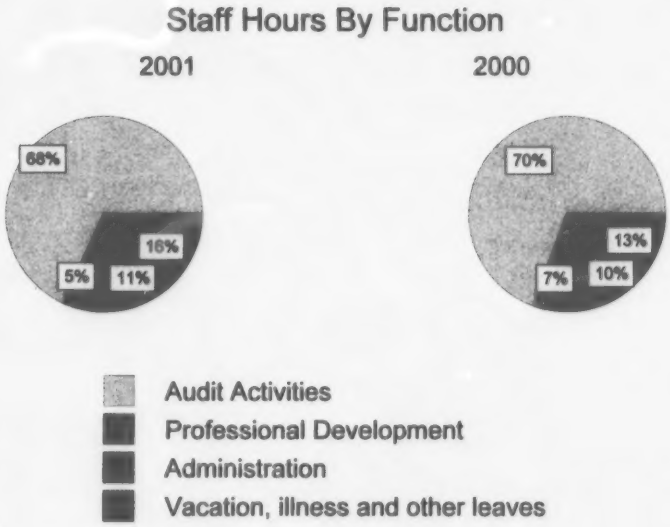
Future Years' Targets - To continue to participate in the Institute of Chartered Accountants of Nova Scotia's Professional Standards Review process, and to conduct our audits in a manner that results in compliance with professional standards.

RESOURCE ALLOCATION

5. **Performance Indicator** - Staff hours committed to various audit and administrative tasks. (This indicator does not include time spent by private firms contracted by the Office to conduct certain financial statement audits.)

Performance Period - Year ended March 31, 2001.

Performance Measurement - Staff hours totaled 50,517 in 2000-01 and 47,678 in 1999-2000.



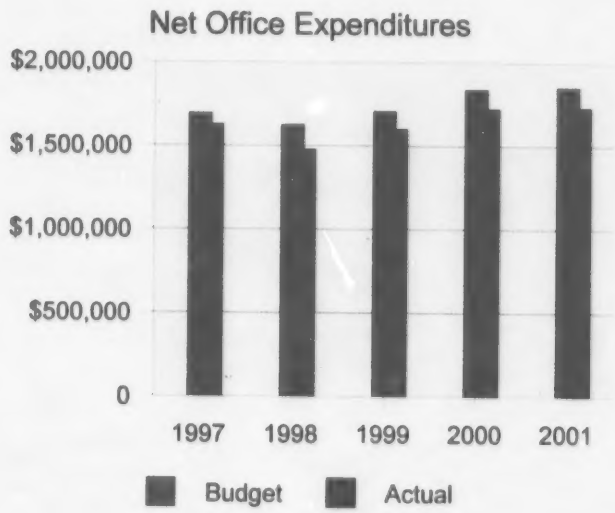
Future Years' Targets - To increase the time spent on audit activities to 70%.

6. **Performance Indicator** - Actual expenses and recoveries compared to budget.

Performance Period - Year ended March 31, 2001.

Performance Measurement -

	March 31, 2001 Actual	March 31, 2001 Budget	Variance
Salaries and benefits	$ 1,560,476	$ 1,682,300	$ 121,824
Other staff expenses	76,225	72,000	(4,225)
Travel	54,233	58,000	3,767
Professional services	67,742	70,000	2,258
Office administration	93,276	107,700	14,424
Total Expenses	1,851,952	1,990,000	138,048
Recoveries	122,923	140,000	17,077
Net Expenses	$ 1,729,029	$ 1,850,000	$ 120,971



Future Years' Targets - To meet the budgetary targets of the Office.

AUDIT EFFICIENCY

7. **Performance Indicator** - Number and percentage of target completion dates met.

   Performance Period - Financial statements for the year ended March 31, 2001, Revenue Estimates for 2001-02, and Annual Report of the Auditor General for 2000.

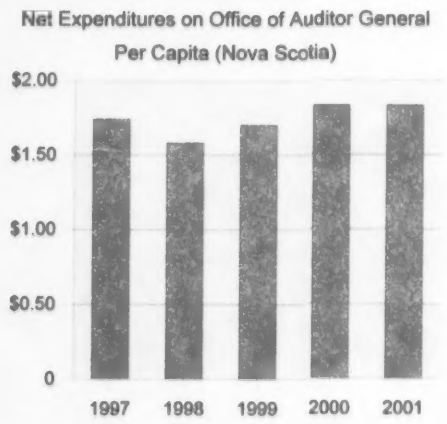
   Performance Measurement - The target dates for our audit of the Government's 2001 Financial Statements and our review of its 2001-02 Revenue Estimates were met. Of 22 financial statement audits conducted, the June 30 target date was met on 9 of them (41%). The 2000 Annual Report of the Auditor General was not issued before its target date - December 31, 2000.

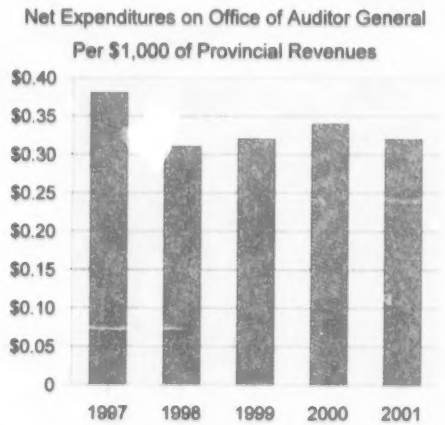
   Future Years' Targets - The ultimate goal is to have all financial statement audits completed by June 30 each year. Intermediate goals are to increase the percentage of financial statement audits completed by this date to 60% by 2002, and 80% by 2003. We also aim to issue the Annual Report of the Auditor General on or before December 31 each year.

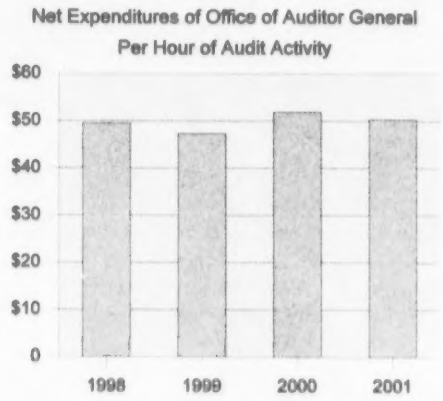
8. **Performance Indicator** - Various Office financial measures.

   Performance Period - Year ended March 31, 2001.

   Performance Measurement -







Future Years' Targets - Benchmarking against other jurisdictions will be needed to set reasonable targets for these three financial measures.

HUMAN RESOURCES

9. **Performance Indicator** - Days of professional development per staff member.

Performance Period - Year ended March 31, 2001.

Performance Measurement - 2000-01: 12 days. 1999-2000: 20 days. These figures included professional development time of students studying to become professional accountants, as well as professional development for all other staff.

Future Years' Targets - 15 days per year.

10. **Performance Indicator** - Staff turnover.

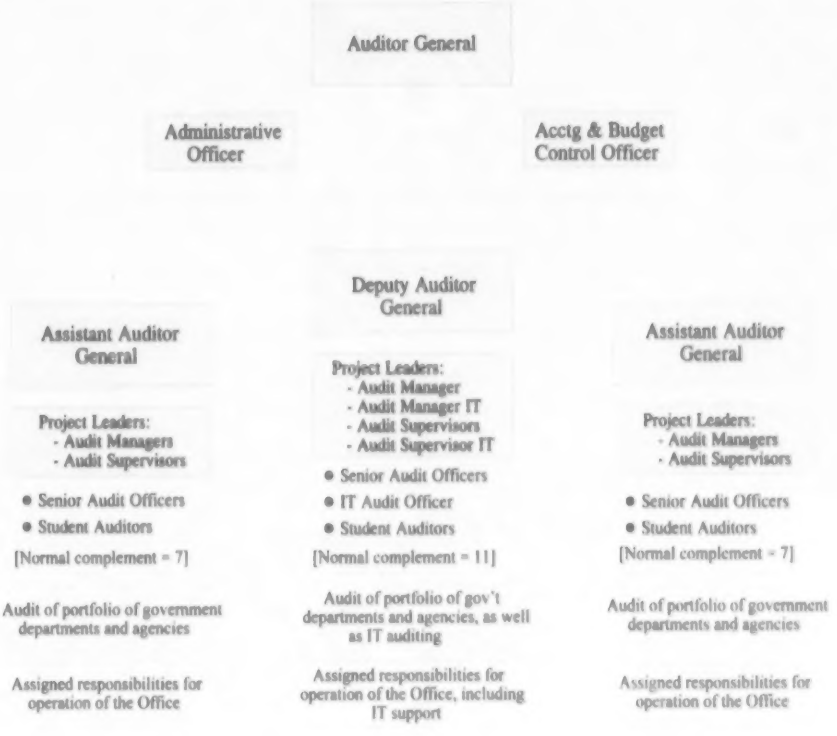
Performance Period - November 1, 2000 to October 31, 2001.

Performance Measurement - Three staff left and three joined during the 12 month period, representing approximately 11% of total staff.

Future Years' Targets - To maintain total staff at full complement, but to have a rate of turnover that will allow for healthy career development for staff. Turnover at 10% per year would be reasonable.

Appendix 1

Office of the Auditor General of Nova Scotia
Organization Chart
2001


Auditor General
Administrative Officer
Acctg & Budget Control Officer
Assistant Auditor General
Project Leaders:
- Audit Managers
- Audit Supervisors
• Senior Audit Officers
• Student Auditors
[Normal complement = 7]
Audit of portfolio of government departments and agencies
Assigned responsibilities for operation of the Office
Deputy Auditor General
Project Leaders:
- Audit Manager
- Audit Manager IT
- Audit Supervisors
- Audit Supervisor IT
• Senior Audit Officers
• IT Audit Officer
• Student Auditors
[Normal complement = 11]
Audit of portfolio of gov't departments and agencies, as well as IT auditing
Assigned responsibilities for operation of the Office, including IT support
Assistant Auditor General
Project Leaders:
- Audit Managers
- Audit Supervisors
• Senior Audit Officers
• Student Auditors
[Normal complement = 7]
Audit of portfolio of government departments and agencies
Assigned responsibilities for operation of the Office

APPENDICES

Appendix I

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

Appendix II

FINANCIAL STATEMENTS

Entity	*Classification*	*Financial Statement Auditor*
Agricultural Organizations		
Nova Scotia Crop and L[illegible]k Insurance Commission	GSO	Auditor General
Provincial Community Pasture Board	GSO	Auditor General
Art and Cultural Organizations		
Art Gallery of Nova Scotia	GSO	Ernst & Young
National Sports Centre Atlantic	GPA	Unaudited
Nova Scotia Arts Council	GSO	Hornby Tinkham Marshall
Nova Scotia Talent Trust	Trust	Auditor General
Public Archives of Nova Scotia	GSO	PricewaterhouseCoopers
Educational Institutions		
Annapolis Valley Regional School Board	GSO	Mackenzie, Morse and Brewster
Atlantic Provinces Special Education Authority	GPA	Auditor General
Cape Breton Victoria Regional School Board	GSO	Roach Perry Anderson
Chignecto-Central Regional School Board	GSO	KPMG
Collège de l'Acadie	GSO	Saxton Comeau
Conseil Scolaire Acadien Provincial	GSO	Saxton Comeau
Halifax Regional School Board	GSO	Grant Thornton
Nova Scotia Community College	GSO	Deloitte & Touche
Southwest Regional School Board	GSO	Grant Thornton
Strait Regional School Board	GSO	William B. Draper
Environmental and Natural Resource Organizations		
Canada-Nova Scotia Offshore Petroleum Board	GPA	Deloitte & Touche
Novaco Limited	GSO	Auditor General
Nova Scotia Primary Forest Products Marketing Board	GSO	Auditor General
Nova Scotia Resources Limited	GBE	KPMG
Resource Recovery Fund Board Incorporated	GSO	Grant Thornton
Sydney Environmental Resources Limited	GSO	J.T. Nash Limited
Tidal Power Corporation	GSO	Unaudited
Gaming and Alcohol Organizations		
Atlantic Lottery Corporation	GBPA	KPMG
Interprovincial Lottery Corporation	GBPA	Arthur Anderson
Nova Scotia Gaming Corporation	GBE	Auditor General
Nova Scotia Gaming Foundation	Trust	Auditor General
Nova Scotia Harness Racing Incorporated	GSO	Auditor General
Nova Scotia Liquor Commission	GBE	KPMG

Entity	*Classification*	*Financial Statement Auditor*
Health Organizations		
Canadian Blood Services	GPA	KPMG
Cape Breton Healthcare Complex	GSO	KPMG
Central Regional Health Board (Note 2)	GSO	Ernst & Young
District Health Authority 1 (South Shore District Health Authority)	GSO	Deloitte & Touche
District Health Authority 2 (South West Nova District Health Authority)	GSO	Deloitte & Touche
District Health Authority 3 (Annapolis Valley District Health Authority)	GSO	Deloitte & Touche
District Health Authority 4 (Colchester East Hants District Health Authority)	GSO	Grant Thornton
District Health Authority 5 (Cumberland Health Authority)	GSO	Grant Thornton
District Health Authority 6 (Pictou County District Health Authority)	GSO	Grant Thornton
District Health Authority 7 (Guysborough Antigonish-Strait District Health Authority)	GSO	KPMG
District Health Authority 8 (Cape Breton District Health Authority)	GSO	KPMG
District Health Authority 9 (Capital District Health Authority)	GSO	Ernst & Young
Eastern Regional Health Board (Note 2)	GSO	KPMG
Insured Prescription Drug Plan Trust Fund	GSO	Auditor General
IWK-Grace Health Centre for Children, Women and Families	GSO	Grant Thornton
Northern Regional Health Board (Note 2)	GSO	Grant Thornton
Nova Scotia Health Research Foundation	GSO	Lyle Tilley Davidson
Nova Scotia Hospital	GSO	Ernst & Young
Provincial Drug Distribution Program	GSO	Ernst & Young
Queen Elizabeth II Health Sciences Centre	GSO	Ernst & Young
Western Regional Health Board (Note 2)	GSO	Deloitte & Touche
Housing Authorities (Note 1)		
Annapolis Valley Housing Authority	GSO	Mackenzie, Morse and Brewster
Cape Breton Island Housing Authority	GSO	KPMG
Eastern Mainland and Cobequid Housing Authorities	GSO	Deloitte & Touche
Metropolitan Regional Housing Authority	GSO	Grant Thornton
South Shore Housing Authority	GSO	Mackenzie, Morse and Brewster
Tri-County Housing Authority	GSO	Saxton Comeau
Justice Organizations		
Law Reform Commission	GSO	Unaudited
Nova Scotia Legal Aid Commission	GSO	Auditor General
Nova Scotia Police Commission	GSO	Grant Thornton
Public Trustee Trust Funds	Trust	Auditor General
Lending Organizations and Funds		
Fisheries and Aquaculture Loan Board	GSO	Auditor General
Industrial Expansion Fund	GSO	Auditor General
Nova Scotia Business Development Corporation	GSO	Auditor General
Nova Scotia Farm Loan Board	GSO	Auditor General
Nova Scotia Film Development Corporation	GSO	Auditor General

Entity	*Classification*	*Financial Statement Auditor*
Nova Scotia Government Fund	Trust	Deloitte & Touche
Nova Scotia Housing Development Corporation	GSO	Auditor General
Nova Scotia Municipal Finance Corporation	GSO	KPMG
Pension and Disability Organizations and Funds		
Members' Retiring Allowances Act Account	Trust	Auditor General
Nova Scotia Public Service Long Term Disability Plan Trust Fund	Trust	Lyle Tilley Davidson
Nova Scotia Teachers' Pension Fund	Trust	Auditor General
Public Service Superannuation Fund	Trust	Auditor General
Sydney Steel Corporation Superannuation Fund	Trust	KPMG
Workers' Compensation Board of Nova Scotia	Trust	Ernst & Young
Tourism Organizations		
Check Inns Limited	GSO	Unaudited
Sherbrooke Restoration Commission	GSO	Deloitte & Touche
Upper Clements Family Theme Park Limited	GSO	Auditor General
Transportation Organizations		
Halifax-Dartmouth Bridge Commission	GBE	Levy Casey Carter MacLean
Highway 104 Western Alignment Corporation	GBE	Grant Thornton
Rockingham Terminal Incorporated	GSO	Unaudited
Other		
Bedford Waterfront Development Corporation	GSO	White Burgess Langille Inman
Council of Maritime Premiers	GPA	PricewaterhouseCoopers
Nova Scotia Freedom of Information and Protection of Privacy Office	GSO	Grant Thornton
Nova Scotia Innovation Corporation	GSO	Auditor General
Nova Scotia Power Finance Corporation	GSO	Deloitte & Touche
Nova Scotia Utility and Review Board	GSO	Grant Thornton
Sydney Steel Corporation	GBE	KPMG
Trade Centre Limited	GSO	KPMG
Waterfront Development Corporation	GSO	Grant Thornton

GBE - Government Business Enterprise
GPA - Government Partnership Arrangement
GSO - Government Service Organization
GBPA - Government Business Partnership Agreement

Note 1 - The Housing Authorities are included in the financial statements of the Province through the Nova Scotia Housing Development Corporation.

Note 2 - The Regional Health Boards ceased operations December 31, 2000 and all assets and liabilities were transferred to the district health authorities.